# Annual Report

2013 | INVESTING IN INNOVATION

KCB | Making the Difference

# Content


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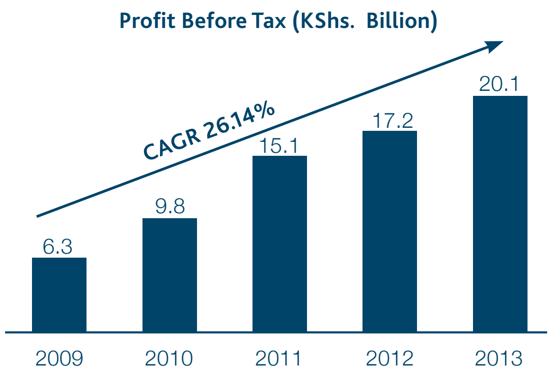
# Business Review and Financial Highlights

## KEY ACHIEVEMENTS

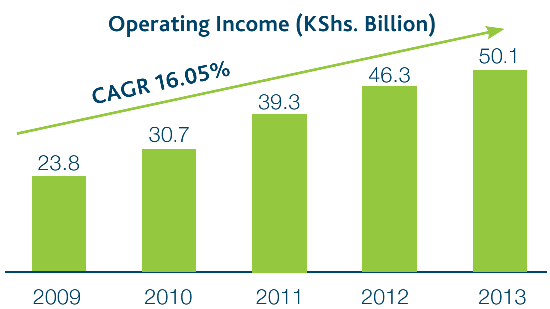
| | |
|---|---|
| **Customer Leadership** | • Dedicated Customer Service Unit<br>• eQMS operational in 16 branches<br>• M-Benki launch |
| **Technology & Innovation** | • i-Bank launch<br>• Robust IT Platform<br>• Agency & County banking solution<br>• Website launch |
| **Business Efficiency and Growth** | • Cost to Income Ratio trending downward<br>• Investment banking products<br>• Enhanced Bancassurance Business |
| **Consolidation of Regional Businesses** | • All regional businesses are profitable and improving |
| **Talent Maximization** | • Completion of the Senior Management recruitment<br>• Staff Restructuring Programme<br>• Revised Performance Measurement Framework |
| **Investor Relations** | • Market Capitalization above KShs.150 billion<br>• Top Three liquid counters on NSE<br>• Outperforming NSE by over 60%<br>• KCB share at high of KShs. 50.50 |
| **GCR Credit Rating** | • Long term AA<br>• Short term A1+<br>• Outlook - Stable |

# Business Review and Financial Highlights *(Continued)*

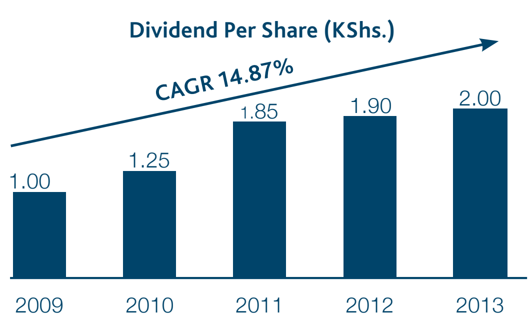
## Five Year Financial Review & Summary



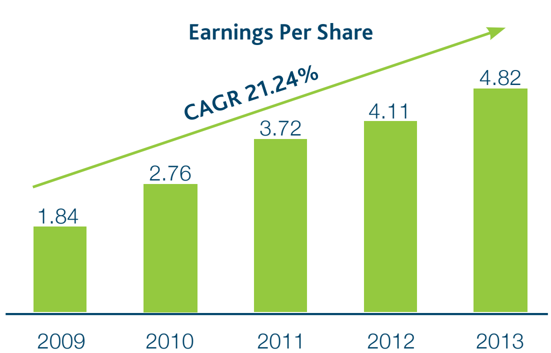

PBT grew by 17% to KShs. 20.1 billion in 2013 driven mainly by growth in net interest income and lower cost of funds.




Operating income increased by KShs. 3.8 billion or 8% to KShs. 50.1 billion in 2013. Future focus is on growth of non-funded income, utilization of alternative channels and customer numbers growth.




Dividend payout increased by 6% from KShs.1.90 in 2012 to KShs. 2.00 per share in 2013. Focus to consolidate retained earnings to improve capital ratios and revised prudential guidelines covering market, lending and operational risks.

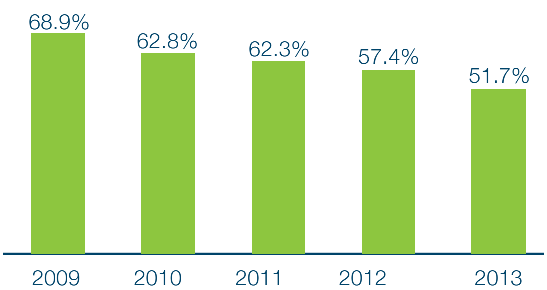



EPS grew 17% to KShs. 4.82 in 2013. Shareholders funds increased to KShs. 63.9 billion in 2013 from KShs. 54.7 billion in 2012. There is a strong forecast for future EPS growth with improved performance in Kenya and regional businesses.

# Business Review and Financial Highlights *Continued*

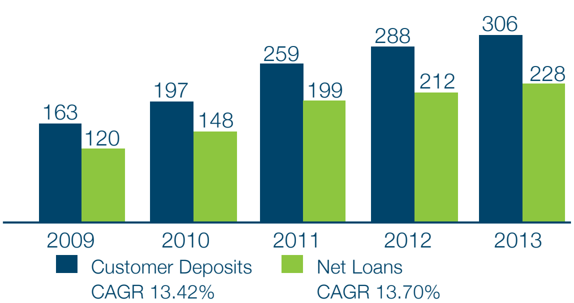
## Five Year Financial Review & Summary *(Continued)*

### Cost to Income Ratio



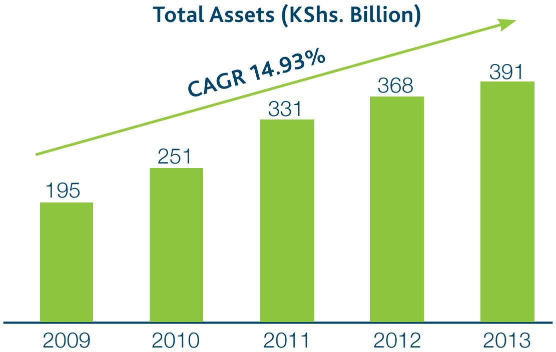

Significant reduction of cost to income ratio by 570 basis points in 2013. Going forward, key focus is on cost transformation initiatives including improved operational efficiencies, better utilization of technology and roll out of innovative products and services.

### Net loans and customer deposits (KShs. Billion)



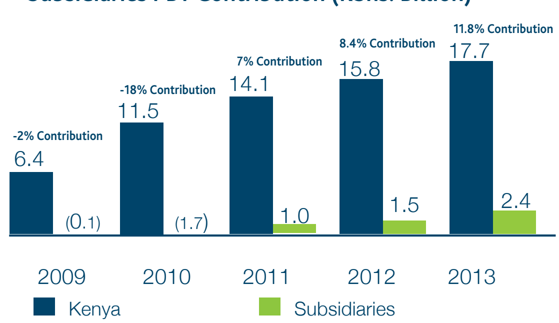

Customer deposits grew by 6% from KShs. 288 billion in 2012 to KShs. 306 billion in 2013 with strategic shift to reduce high cost deposits. KCB M-Benki set to accelerate mobilization of customer deposits.

### Total Assets (KShs. Billion)




Group's balance sheet grew by 6% from KShs. 368.4 billion in 2012 to KShs. 391 billion in 2013. Diversification of investment in government securities and lending to private sector and SMEs expected to bring sustained growth in total assets.

### Subsidiaries PBT Contribution (KShs. Billion)




The investment in the subsidiaries has increasingly contributed greater returns to the Group. This was possible through improved efficiencies, growth in market share and consolidation of each markets' strengths & opportunities. Going forward, the target contribution for the subsidiaries is expected to be at 15% in 2014

## Five Year Financial Review & Summary *(Continued)*

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 31-Dec-09 Kshs 000 Audited | 31-Dec-10 Kshs 000 Audited | 31-Dec-11 Kshs 000 Audited Restated | 31-Dec-12 Kshs 000 Audited Restated | 31-Dec-13 Kshs 000 Audited |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Government and other securities | 26,034,258 | 50,108,498 | 46,004,636 | 89,291,304 | 92,996,115 |
| Loans and advances to customers (net) | 120,467,051 | 148,113,364 | 198,724,919 | 211,664,226 | 227,721,781 |
| Property and equipment | 7,980,332 | 8,271,647 | 8,017,595 | 8,895,573 | 8,484,836 |
| Other assets | 40,529,907 | 44,862,691 | 77,916,809 | 58,167,682 | 61,648,847 |
| **Total Assets** | **195,011,548** | **251,356,200** | **330,663,959** | **368,018,785** | **390,851,579** |
| **Liabilities** | | | | | |
| Customer deposits | 162,544,539 | 196,974,651 | 259,308,849 | 288,037,367 | 305,659,189 |
| Lines of credit | 6,668,388 | 9,557,372 | 22,630,149 | 18,256,901 | 14,370,624 |
| Other liabilities | 2,994,696 | 5,694,406 | 4,238,134 | 7,429,458 | 7,466,799 |
| **Total Liabilites** | **172,207,623** | **212,226,429** | **286,177,132** | **313,723,726** | **327,496,612** |
| **Total Equity** | **22,803,925** | **39,129,771** | **44,486,827** | **54,295,059** | **63,354,966** |
| **TOTAL LIABILITIES AND EQUITY** | **195,011,548** | **251,356,200** | **330,663,959** | **368,018,785** | **390,851,578** |

| CONSOLIDATED INCOME STATEMENT | 31-Dec-09 Kshs 000 Audited | 31-Dec-10 Kshs 000 Audited | 31-Dec-11 Kshs 000 Audited | 31-Dec-12 Kshs 000 Audited | 31-Dec-13 Kshs 000 Audited |
|---|---|---|---|---|---|
| Interest income | 17,968,455 | 23,109,793 | 27,902,649 | 43,082,218 | 41,613,399 |
| Interest expense | 3,499,734 | 3,464,468 | 4,616,241 | 12,445,986 | 8,629,112 |
| **Net interest income** | **14,468,721** | **19,645,325** | **23,286,408** | **30,636,232** | **32,984,287** |
| Non-interest income | 9,291,467 | 11,016,062 | 16,022,674 | 15,620,886 | 17,125,978 |
| **Operating income** | **23,760,188** | **30,661,387** | **39,309,082** | **46,257,118** | **50,110,265** |
| Expenses | 15,885,626 | 18,719,096 | 22,283,626 | 25,292,333 | 27,080,531 |
| Impairment on Loans and advances | 1,574,201 | 2,144,320 | 1,896,082 | 3,756,642 | 2,905,975 |
| **Operating expenses** | **17,459,827** | **20,863,416** | **24,179,708** | **29,048,975** | **29,986,506** |
| **Profit before tax** | **6,300,361** | **9,797,971** | **15,129,374** | **17,208,143** | **20,123,759** |
| Income tax expense | 2,216,490 | 2,619,998 | 4,148,328 | 5,004,612 | 5,782,377 |
| **Profit for the year** | **4,083,871** | **7,177,973** | **10,981,046** | **12,203,531** | **14,341,382** |
| **Other Comprehensive income:** | | | | | |
| Gains/(Losses) from translating the financial statements of foreign operations | - | - | - | 97,273 | (736,114) |
| Re-measurement of Defined Pension Fund | - | - | - | 833,700 | 508,900 |
| Fair value changes in available-for-sale financial assets | - | - | - | 1,898,331 | (78,581) |
| **Other comprehensive income for the year net of tax** | **-** | **-** | **-** | **2,829,304** | **(305,795)** |
| **Profit attributable to equity holders of the bank** | **4,083,871** | **7,177,973** | **10,981,046** | **15,032,835** | **14,035,587** |
| **Earnings per share (KShs)** | **1.84** | **2.76** | **3.72** | **4.11** | **4.82** |
| **Dividend per share (KShs)** | **1.00** | **1.25** | **1.85** | **1.90** | **2.00** |

| OTHER DISCLOSURES | 31-Dec-09 Kshs 000 | 31-Dec-10 Kshs 000 | 31-Dec-11 Kshs 000 | 31-Dec-12 Kshs 000 | 31-Dec-13 Kshs 000 |
|---|---|---|---|---|---|
| **NON-PERFORMING LOANS AND ADVANCES** | **Audited** | **Audited** | **Audited** | **Audited** | **Audited** |
| a) Gross Non-performing loans and advances | 14,639,581 | 14,583,382 | 12,228,264 | 14,750,335 | 19,227,705 |
| b) Less Interest in Suspense | 1,914,873 | 1,796,530 | 1,225,595 | 1,816,184 | 2,200,117 |
| **c) Total Non-Performing Loans and Advances (a-b)** | **12,724,708** | **12,786,852** | **11,002,669** | **12,934,151** | **17,027,588** |
| d) Less Loan Loss Provision | 6,356,376 | 6,790,567 | 5,240,564 | 7,599,324 | 6,761,992 |
| **e) Net Non-Performing Loans and Advances (c-d)** | **6,368,332** | **5,996,285** | **5,762,105** | **5,334,827** | **10,265,596** |
| **KEY PERFORMANCE INDICATORS (Percentages)** | | | | | |
| Return on Equity (ROE) | 17.91 | 18.34 | 24.68 | 25.00 | 24.40 |
| Non-interest income to operating income | 39.11 | 35.93 | 40.76 | 33.77 | 34.18 |
| Net non-performing loans to total loans | 4.90 | 4.10 | 2.90 | 3.60 | 4.30 |
| Return on total assets | 2.10 | 2.80 | 3.30 | 3.50 | 3.80 |

In 2013, the Governments and Regulators of the markets where the KCB Group (Kenya Commercial Bank Limited and its Subsidiaries) operates expended significant efforts to enhance the legal and regulatory framework in the banking sector and ensure adequate control in the changing economic environment. Below are some highlights of the legal and regulatory developments in the region.

## KENYA

### Central Bank Prudential Guidelines and Risk Management Guidelines of 2013:

A new set of Prudential and Risk Management Guidelines was introduced by the Central Bank of Kenya (CBK) which came into force on 1st January, 2013 thereby replacing the Prudential Guidelines issued in 2006. The new guidelines introduced nine areas of focus. These include guidelines around business continuity management, agent banking, outsourcing, representative offices, voluntary liquidation, consolidated supervision, stress testing, prompt corrective action and consumer protection. Two additional guidelines were introduced in May 2013 i.e. Incidental Business Activities and Non-Operating Holding Companies.

To highlight, the Prudential Guideline on Non-Operating Holding Companies, was formulated following the amendments to the Banking Act, Chapter 488 by the Finance Act, 2012 (Act No.57 of 2012) which allows a non-operating holding company approved by CBK to acquire control of more than 25% of the share capital of a banking institution. The guideline provides guidance on the acquisition of control of institutions by non-operating holding company's and regulates the non-banking activities. A non-operating holding company would assist KCB Group to realise operational and strategic autonomy, enhance corporate governance and manage risk while allowing for operational effectiveness and serve as an investment vehicle for investors.

The enhanced Prudential Guidelines reflect the changing banking environment in Kenya and in the region and the increasing regulatory oversight designed to promote a stable banking industry. The KCB Group has embraced and embarked on implementation of the new guidelines and is working to ensure compliance within the set regulatory timelines.

### Finance Act, 2013 (Act No. 38 of 2013):

**a) Credit Information Sharing**

The Finance Act, 2013 amended the Banking Act, Chapter 488 and the Microfinance Act, 2006 to allow institutions licensed under them to share both positive and negative information with credit reference bureaus. This amendment will enable anyone seeking to use the credit report of a person to get a holistic picture of the credit worthiness of that person. In January 2014, the Credit Reference Bureau Regulations, 2013 were gazetted and KCB Group is working to ensure compliance.

**b) Excise Duty on Bank Service Fees**

Following the enactment by Parliament of the Finance Act, 2012 together with the amendments contained in the Finance Act, 2013, the Customs and Excise Act, Chapter 472 was amended to introduce a 10% excise duty (tax) on service fees charged by banks. The Bank reviewed its tariffs to comply with the regulation hence raising bank charges to customers. The service fees are defined to include fees and commissions charged on money transfer services and other bank fees, charges and commissions but excludes interest.

### Banking Act, Chapter 488:

CBK has been empowered to make Regulations to provide for penalties for failure to comply with any directions issued by the CBK under the Banking Act and the Prudential Guidelines with a maximum penalty of KShs. 5,000,000/= in the case of an institution and KShs. 200,000/= in the case of natural persons including officers of financial institutions deemed liable for causing the breach of legal provisions. A further maximum penalty of a maximum of KShs. 20,000/= may be levied for each day or part of a day during which non-compliance continues. The Bank already has a legal compliance function which will ensure continued compliance with regulatory requirements.

### Capital Markets (Amendment) Act, 2013:

Following amendments to the Capital Markets Act, the requirement for annual renewal of licenses issued by the Capital Markets Authority has been removed. Licenses issued by the Capital Markets Authority will accordingly remain valid until they are revoked or suspended by the Authority. Consequently, the licenses issued to KCB in respect of custodial services and to KCB Capital Limited for investment banking will not require annual renewal.

### Dematerialization of Securities:

On 1st November, 2013, KCB shares were dematerialized in accordance with the Central Depositories Act, 2000 thereby converting paper certificates into an electronic format. Share certificates have therefore ceased to be prima facie evidence of ownership and KCB is no longer issuing certificates in respect of dematerialized shares.

A shareholder who has not immobilized their shares will still continue to receive all bonus shares or dividends or any other corporate action and entitlement that are due to them. However, we encourage Shareholders who have not immobilized their shares to date to deliver the required documents to thier stockbroker, investment bank or custodian bank, and they shall be assisted with the verification process by the registrar of the company for their shares to move from a non-trading CDS account to a trading CDS account.

The migration from paper/physical share certificates to electronic accounts will shorten the settlement period, and enhance the safety and security of dealing with shares listed on the securities exchange.

### TANZANIA

A key development in the year for Tanzania was the enactment of the Finance Act, 2013 (Act No. 4 of 2013) on 1st July, 2013 by the Government of the United Republic of Tanzania which made amendments to sections 124 and 125 of the Excise (Management and Tariff) Act, Chapter 147 by introducing an excise duty on money transfer through a bank, a financial institution or a telecommunication company.

### UGANDA

In Uganda, the Government enacted two key legislations namely The Companies Act, 2012 and Anti-Money Laundering Act, 2013.

The Companies Act, 2012 came into force on 1st July, 2013 and repealed the Companies Act, Chapter 110 of the Laws of Uganda (revised edition 2000). The new issues introduced by the Act included single member Company, details of change of status of company, quasi-judicial powers of registrars, change of age (qualification) of company directors among others. Notably the Act amply provides for corporate governance.

The Anti-Money Laundering Act, 2013 came into force on 1st November, 2013 and provides for the prohibition and prevention of money laundering, the establishment of a Financial Intelligence Authority and Financial Intelligence Authority Board in order to combat money laundering activities. The Act also imposes duties on Institutions and other persons, businesses and professions who might be used for money laundering purposes. The two Acts are a welcomed attempt to catch up with global trends in the law governing corporate entities and the prevention of money laundering.

### RWANDA

In Rwanda, the National Bank published three key regulations which impacted on financial institutions in 2013.

Firstly, Regulation N° 04/2013 of 27/08/2013, relating to cheque truncation will facilitate the implementation of an effective and efficient payment system.

Secondly, Regulation N° 05/2013 published on 04/11/2013 governing Foreign Exchange Operations aims at liberalization of capital account and setting rules for management of forex transactions by Banks and forex bureaus.

Finally, Regulation N° 08 of 23/12/2013 modifies and complements regulation N° 03/2008 on licensing conditions of banks. This regulation aims at modifying and complementing regulation N° 03/2008 of 05/09/2008 on licensing conditions of banks. It introduced a Supervision fee of 0.5% of the bank's gross income generated in the previous financial year.

### BURUNDI

In Burundi, the Bank of the Republic of Burundi published five key laws and Central Bank circulars that had an impact on business in 2013.

Firstly, Law 1/02 promulgated on 24th January 2013 relating to income tax reduced corporate tax rate from 35% to 30% and eliminated turnover tax of 1% on turnover for loss making companies or where turnover tax was higher than corporate tax.

Secondly, Law 1/12 promulgated on 29th July 2013 introduced Value Added Tax (VAT) and requires banks to file VAT returns on income irrespective of their services.

Thirdly, Circular No. 12/2013 relating to classification of loans risk and provisions harmonized the dates with those of the East African Community and the class category provision per each class modified. The provisioning begins upon 90 days of unpaid debt instead of 180 days.

Fourthly, Central Bank Circular No. 4/2013 on Foreign Exchange trading position controls capping exchange to within +/- 1% of the Central Bank mean rate for all Foreign Currency transactions and requires that evidence in the form of an invoice or travel documents be produced before effecting a sale of foreign currency.

Finally, the Central Bank Circular No. 2/2013 reduced the minimum liquidity requirement from 100% to 20% and made changes to the manner of its calculation.

### SOUTH SUDAN

In South Sudan, the Bank of South Sudan published Circular No. 1 of 2013 requiring International banks to increase the paid up capital to 25 million US Dollars by end of December, 2014 and 30 million US Dollars by the end of December, 2015. Should an International bank, for instance KCB, not comply with this requirement, the Bank of South Sudan may impose sanctions on the bank such as suspension from foreign exchange allocation for shillings services and branch expansion.

# Chairman's Statement

## Embracing Innovation to Drive Business Growth

**Dear Shareholders,**

I am pleased to report to you that 2013 was a year of good progress in delivering on KCB Group's strategic objectives. Our decision to re-focus the Group through transformation and targeted efficiencies is paying dividends. It is bringing greater clarity to the One Branch Banking Principle and focus is now firmly on delivering sustainable cost-transformation practices, while at the same time allowing controlled investment in the desired areas of greatest opportunity.

### Performance in 2013

I am therefore delighted to present to you the KCB Group Annual Report and Financial Statements for the year 2013. For the first time in the banking history, KCB Group's profitability before tax crossed the KShs. 20 billion mark to stamp our strong position as the leading indigenous Bank in the East African region.

This reflects a 17% growth in profitability before tax (14% in 2012) to record KShs. 20.1 billion in the year 2013. These impressive results and the on-going transformation agenda demonstrates that our strategy across the region is working. This achievement was driven by the sustained growth in our Kenyan business, the improved performance in our International businesses, the deliberate investment in human capital and consistent strides in technology and innovation. The result is an improvement in KCB Group's operational efficiency and an improved cost to income ratio.

**Chairman**
**NGENY BIWOTT**

We have also witnessed improved performance and recorded positive levels of return on equity from all our International businesses (Tanzania, South Sudan, Uganda, Rwanda and Burundi). The International businesses recorded a collective pre-tax profits of KShs. 2.4 billion in 2013 up from KShs. 1.5 billion in 2012. This remarkable growth of 60% in our International businesses reflected in a contribution of 11.5% to KCB Group's overall pre-tax profits.

The Bank's balance sheet, which is the largest in the region, grew by 6% from KShs. 368.4 billion to KShs. 391 billion. Customer deposits grew modestly by 6%, from KShs. 288.0 billion to KShs. 305.7 billion following a strategic decision to release expensive deposits. Net loans and advances grew by 8% from KShs. 211.7 billion to KShs. 227.7 billion. Going forward, the Bank intends to grow its non-funded income through cross selling and optimal utilisation of alternative business channels such as agency banking, mobile banking, internet banking, ATMs, credit cards and leveraging on our extensive branch network.

### Contingency Management

The prevailing circumstances in South Sudan following the unfolding political unrest that started in December 2013 made it challenging to operate in the market. However, our staff in KCB Bank South Sudan (KCBSS) demonstrated courage, determination and passion to serve our customers in the prevailing environment which is highly commendable. As a demonstration of our commitment to the people of South Sudan, KCBSS never closed its operations during the sporadic fighting. The Bank upon a comprehensive assessment of risk on staff and bank assets, the KCBSS management in conjunction KCB Group diligently managed to provide banking services to our customers.

As you are aware KCB has 21 branches spread across the 10 States in South Sudan. Where the risk was deemed to be significant, branches were closed. The Board of Directors continued to provide the guidance and strategic counsel during this period. All effort was put into place to ensure that we had sound strategies and information gathering mechanisms in place to provide timely interventions in case of any adverse situation. We continue to monitor the situation on the ground very closely and are pleased with the cordial working relations with the South Sudan authorities, the KCB Board and Executive Management.

### Dividend Payment

In line with the current policy on dividends, the Board recommends payment of a first and final dividend of KShs 2.00 per share (up from KShs 1.90 paid in 2012), which represents a 6% increase. If approved at the Annual General Meeting, the cash dividend will be paid out on or about June 13, 2014 to shareholders who appear in the register of members at close of business on May 12, 2014. The Board will continue to provide oversight to the Bank in the interest of the Shareholder.

### Governance and Board Changes

After the 2008 global bank crisis, lessons learnt demand that the Boards of Directors assume a new phase in accountability, roles and responsibilities. The KCB Board in 2013 engaged a global leading consultant Nestor Advisors, to review the Group's Governance Model and Policy. Consequently, the Board formulated and implemented a new Group Governance Policy and Non-Executive Directors Remuneration and Privileges Policy. KCB Board continues to implement global best practices in governance and management of the business.

# Chairman's Statement *(Continued)*

Our KCB Board structure puts emphasis on critical business responsibilities and gives the Board of Directors an opportunity to interact adequately with the business in order to fully discharge their mandates. We are confident that the business is managed prudently and in compliance with all regulatory obligations.

In the year 2013, there were changes to the Board of Directors. In accordance with the Bank's Board Charter Mr. Joseph Isaac Adongo retired from the Board. Mr. Tom Ipomai whom you elected in the last Annual General Meeting joined the Board of Directors. In addition, Mrs. Catherine Adongo Kola and Prof. Peter Kiko Kimuyu were re-elected to the Board and subsequently, the Board also elected a new Chairman, Mr. Ngeny Biwott, who took over from Eng. Musa Ndeto. Mr. Collins Otiwu, was appointed to the Board following his appointment as the Group Chief Financial Officer. The Board also appointed Mr. Joseph Kania as the new Group Company Secretary. I welcome the new Directors to the Board and thank those leaving for their contributions.

As you are aware, the Chief Executive Officer, Mr. Joshua Oigara, was appointed in January, 2013. In mid-2013, the Board reviewed the management executive appointments in Executive Committee (EXCO) that were also approved by the Central Bank of Kenya. The Group's Executive Committee (EXCO) is now made up of the Chief Executive Officer, Group Chief Financial Officer, the Chief Business Officer and MD Kenya, the Director Credit, the Director Human Resources, the Chief Information Officer, the Director Risk and the Group Company Secretary. This is a lean and high-level performance team put in place in line with the Group's operational strategy. The team has the Board's full confidence as they embark on steering KCB towards the sustainable path from Good to Great.

KCB Bank Uganda Board Chairman, Mr. Samwiri Njuki (left), Uganda Minister of Trade, Industry and Cooperatives, Amelia Kyambadde (centre) sample some of the products made under the KCB Made in Uganda Project. Looking on is the KCB Bank Uganda Managing Director, Albert Odongo (second from right).

### Sustainability Journey

KCB Group Board in 2013 approved the Sustainability Framework for the Bank. The Board is committed to dedicate reasonable resources for the implementation of programmes that will ensure the Bank's adherence to the Sustainability Principle.

The Board is directly responsible for the correct implementation of Sustainability programmes for the Bank based on four key pillars namely, Social, Environmental, Economic and Financial Sustainability enabling the Bank to progressively contribute towards adoption and implementation of industry best practice. This will ensure that KCB Group will be a sustainable going concern in decades to come. We shall also work with all stakeholders to drive our agenda by leveraging existing synergies in our concerted efforts towards a sustainable world. In furtherance of this, the Bank will continue to invest in long-term business, customer relationships, robust governance and prudently managing risk.

### The KCB Foundation

The Bank has in accordance with its policy allocated 1% of its pre-tax profit for the year 2013 towards the KCB Foundation. This allocation will finance Education, Environment, Enterprise Development, Health and Humanitarian Interventions in Kenya, Tanzania, South Sudan, Uganda, Rwanda and Burundi. It is also part of our pledge for good corporate citizenship and embracing our social sustainability agenda.

### Going Forward

In conclusion and looking ahead, we are very optimistic that the business will continue to grow, despite the challenges that we may encounter in our business environment. We have put in place a sound strategic vision for our Bank to drive this future growth. Banking, as we know it today, has evolved over the past decade into a digitally dynamic era. It is now evident that technology-driven banking is at the forefront of the Regional banking sector.

As KCB Group, we believe we have the right human capital in place. The Board is confident that KCB can continuously improve on efficiencies, customer service, and competitiveness in the market.

I would like to thank the Management team and staff of KCB for their superior performance and call upon them to continue with the same degree of dedication. That way, the Bank can continue to produce such great results and top the leader board in Pan-African banking landscape. My colleagues in the Board and I will provide the necessary oversight, guidance and support to management to propel KCB Group to achieve its medium and long-term objectives. We are prepared to take this business to the next level and have no doubt about the visionary direction to your benefit as a shareholder of the KCB Group.

**Mr. Ngeny Biwott**
*Group Chairman*

# Taarifa ya Mwenyekiti

## Kuendeleza Biashara kwa Kuzingatia Ubunifu

**Wapendwa Wanahisa,**

Ni furaha kuwafahamisha kuwa mwaka wa 2013 ulikuwa na maendeleo mazuri katika kuwasilisha malengo muhimu ya Kampuni ya KCB. Lengo letu la kubadili Kampuni kupitia mabadiliko na utendaji mwafaka linazaa matunda. Linafanya Maadili ya Tawi Moja kueleweka zaidi na dhamira sasa imo katika kutoka usimamizi wa gharama endelevu, na wakati huo huo kuruhusu uwekezaji unaodhibitiwa katika maeneo yenye nafasi bora zaidi za biashara.

### Maendeleo mwaka wa 2013

Hivyo nina furaha kukuwasilishieni Ripoti ya Mwaka ya Kampuni ya KCB na Taarifa za Kifedha kwa mwaka wa 2013. Kwa mara ya kwanza katika historia, faida ya Kampuni ya KCB kabla ya kodi ilipita kima cha KShs. bilioni 20 kubainisha nafasi yetu thabiti kama Benki ya hapa nchini inayoongoza katika eneo la Afrika Mashariki.

Hili ni akisi la ukuaji wa asili mia 17 katika faida kabla ya kodi (asili mia 14 mwaka wa 2012) na kurekodi KShs. bilioni 20.1 mwaka wa 2013. Matokeo haya yakufana na mpango wa kurekebisha utendaji unaoendelea, yanaonyesha kwamba mikakati yetu kote katika eneo hili inaleta ufanisi. Ufanisi huu ulisaidiwa na ukuaji thabiti katika biashara yetu ya Kenya, kuboreka kwa biashara yetu ya Kimataifa, kuwekeza kwa makusudi katika nguvu kazi na ufanisi katika teknolojia na uvumbuzi. Matokeo haya, yamepelekea kuimarika

Mwenyekiti
NGENY BIWOTT

kwa utendaji wa shughuli za Kampuni ya KCB na kuimarika kwa gharama dhidi ya uwiano wa mapato.

Tumeshuhudia pia ukuaji thabiti wa Biashara zetu za Kimataifa (Tanzania, Sudani Kusini, Uganda, Rwanda na Burundi) na kupata viwango vya ufanisi katika masoko ya hisa tunayoshiriki. Biashara za Kimataifa zilirikodi jumla ya faida kabla ya kodi ya KShs. bilioni 2.4 mwaka wa 2013 kutoka KShs. bilioni 1.5 mwaka wa 2012. Ukuaji huu mkubwa wa asili mia 60 katika Biashara zetu za Kimataifa uliakisi mchango wa asili mia 11.5 katika faida yote ya jumla ya Kampuni ya KCB kabla ya kodi.

Uwiano wa mali, madeni na umiliki wa hisa katika Benki ulikua kwa asili mia 6 kutoka KShs. bilioni 368.4 hadi KShs. bilioni 391. Fedha zilizowekwa kwenye akaunti na wateja zilikua kwa kiwango cha wastani cha asili mia 6, kutoka KShs. bilioni 288 hadi KShs. bilioni 305.7 kufuatia uamuzi wa kimkakati wa kuondokana na akiba za gharama kubwa. Jumla ya mikopo ilikua kwa asili mia 8 kutoka KShs. bilioni 211.7 hadi KShs. bilioni 227.7. Katika siku zijazo, Benki inakusudia kukuza mapato yake yasiyofadhiliwa kupitia mauzo na matumizi thabiti ya njia za biashara kama vile huduma za benki kupitia wakala, huduma za benki kupitia mtandao wa simu, huduma za benki kupitia mtandao, huduma za ATM zile za kadi na kutegemea mtandao wetu mkubwa wa matawi.

### Usimamizi wa dharura

Matukio yalivyo katika Sudani Kusini kufuatia machafuko ya siasa yaliyoanza Desemba 2013 yalituwia vigumu kufanya biashara katika soko hilo. KCB Sudani Kusini ina matawi 21 yaliyosambaa katika majimbo 10. Hata hivyo, wafanyakazi wetu wa KCB Sudani Kusini (KCBSS) walionyesha ukakamavu, bidii na hamasa kuwahudumia wateja wetu katika hali hiyo, jambo ambalo linastahili pongezi. Kuonyesha kujitolea kwetu kuhudumia watu wa Sudani Kusini, Benki ya KCB Sudani Kusini haikufunga shughuli zake wakati wa mapigano ya hapa na pale. Kwa kutathimini hali ya usalama ya wafanyakazi na mali ya benki, Usimamizi ukishirikiana na Kampuni ya KCB walifanikiwa kuendelea kutoa huduma za benki kwa wateja wetu.

Kama mnavyofahamu KCB ina matawi 21 yaliyotawanyika katika majimbo 10 huko Sudani Kusini. Kule ambapo ilionelewa kuna hatari kubwa, matawi yalifungwa. Halmashauri ya Wakurugenzi ilitoa mwongozo na ushauri wa kimkakati katika kipindi hiki. Mikakati imara na mbinu za kukusanya habari zimewekwa ili kuingilia kati hali inapokuwa tete. Tunaendelea kufuatilia hali hiyo kwa karibu. Tunafurahia uhusiano wa kikazi wa kirafiki na maafisa wa serikali wa Sudani Kusini, Halmashauri ya KCB na Usimamizi Mkuu katika kushughulikia tatizo hilo.

### Mgao wa Hisa

Kuambatana na sera ya sasa kuhusu malipo ya mgao wa faida, Halmashauri inapendekeza malipo ya kwanza na ya mwisho ya KShs. 2 kwa hisa (ongezeko kutoka KShs.1.90 yaliyolipwa 2012), ambalo ni wakilisho la ongezeko la asili mia 6. Iwapo itaidhinishwa katika Mkutano huu Mkuu wa Mwaka, fedha taslimu za mgao huo wa faida zitalipwa kufikia tarehe 13, Juni 2014 au karibu na hapo kwa wanahisa walio kwenye sajili ya wanachama kufikia mwisho wa mkutano tarehe 12, Mei, 2014. Halmashauri itaendelea kusimamia kwa busara shughuli za Benki kwa manufaa ya Mwanahisa.

### Utawala na Mabadiliko ya Halmashauri

Tajiriba tuliyopata kutokana na mzozo wa benki kote duniani mwaka wa 2008, inahimiza kwamba Halmashauri ya Wakurugenzi waingie katika awamu mpya ya uwajibikaji na majukumu. Mnamo 2013 Halmashauri ya KCB, iliomba huduma za washauri maarufu, Nestor Advisors, kuchunguza upya Kiuzi cha Kampuni cha Usimamizi na Sera. Hivyo Halmashauri ilitoa na kutekeleza sera mpya ya usimamizi wa Kampuni. Pia iliidhinisha sera mpya ya malipo ya

# Taarifa ya Mwenyekiti *(Yaendelea)*

Wakurugenzi Wakuu wasio tekeleza majukumu ya siku hadi siku.

Misingi ya Halmashauri ya KCB inaweka msisitizo kwenye majukumu nyeti ya kibiashara na hutoa fursa kwa Halmashauri ya Wakurugenzi kujifahamisha vyema na biashara ili kutekeleza majukumu yao kikamilifu. Tuna imani kuwa biashara inasimamiwa kwa busara na kwa kuzingatia masharti yote ya kisheria.

Mwaka wa 2013 kulifanyika mabadiliko katika Halmashauri ya Wakurugenzi. Kulingana na Kanuni za Huduma za Wakurugenzi, Bw. Joseph Isaac Adongo alistaafu kutoka kwa Halmashauri. Bw. Tom Ipomai ambaye mlimchagua katika Mkutano Mkuu wa Mwaka uliopita alijiunga na Halmashauri ya Wakurugenzi. Pamoja na hayo, Bi. Catherine Adongo Kola na Prof. Peter Kiko Kimuyu walichaguliwa tena kwenye Halmashauri. Aidha, Halmashauri pia ilimchagua mwenyekiti mpya, Bw. Ngeny Biwott, ambaye alichukua hatamu kutoka kwa Mhandisi Musa Ndeto. Bw. Collins Otiwu aliteuliwa kwenye Halmashauri kufuatia kuajiriwa kwake kuwa Msimamizi Mkuu wa Fedha. Halmashauri pia ilimteua Bw. Joseph Kania kuwa Katibu mpya wa Kampuni. Nawakaribisha Wakurugenzi wapya kwenye Halmashauri na kuwashukuru wale wote wanaoondoka kwa mchango wao.

Kutoka kushoto; Mkurugenzi wa KCB wa Biashara Rejareja, Annastacia Kimtai, Mwenyekiti wa Kampuni ya KCB, Bw. Ngeny Biwott, Mke wa Naibu Rais, Bi. Rachel Ruto na Dkt. Solomon Joloimat, wakati Bi. Ruto alipotembelea ofisi ya Mwenyekiti.

Kama mnavyofahamu, Mkurugenzi Mkuu wa Kampuni, Bw. Joshua Oigara, alichukua hatamu Januari, 2013. Katikati ya 2013, Halmashauri ilichunguza upya ajira za wasimamizi wakuu katika Kamati Simamizi (EXCO) ambazo ziliidhinishwa pia na Benki Kuu ya Kenya. Kamati Simamizi ya Kampuni (EXCO) sasa inawajumuisha Mkurugenzi Mkuu, Msimamizi Mkuu wa Fedha, Afisa Mkuu wa Biashara nchini Kenya, Mkurugenzi wa Mikopo wa Kampuni, Mkurugenzi wa Wafanyakazi, Mkurugenzi wa dhidi ya athari za kifedha, Mkururgenzi Mkuu wa Teknolojia na Katibu wa Kampuni. Hili ni kundi la watu wachache na lenye ujuzi mkubwa wa kufanya kazi lililoundwa kuambatana na mikakati ya sera ya Kampuni. Halmashauri ina imani kamili na kundi hilo linapoanza kuielekeza KCB kutoka mkondo wa kuwa benki bora hadi ule wa kuwa benki thabiti zaidi.

### Safari endelevu

Mnamo 2013 Halmashauri ya Kampuni ya KCB iliidhinisha Mfumo Endelevu kwa Benki. Halmashauri imejitolea kutoa rasilimali zifaazo kwa utekelezaji wa mipango ambayo itahakikisha uzingativu wa Benki kwa Kanuni Endelevu.

Halmashauri inahusika moja kwa moja katika utekelezaji sahihi wa Maendeleo Endelevu ya Kijamii, Mazingira Endelevu, Uchumi Endelevu na Uthabiti wa Kifedha. Hii itahakikisha kuwa Kampuni ya KCB itakuwa taasisi endelevu miongo inayokuja. Pia tutafanya kazi na washikadau kuendeleza ajenda yetu kwa kutumia ushirika uliopo katika juhudi zetu za kuafikia ulimwengu endelevu. Katika kuafikia hili, Benki itaendelea kuwekeza katika biashara za muda-mrefu, uhusiano wa wateja, usimamizi thabiti na ulinzi dhidi ya athari za kifedha.

### Wakfu wa KCB

Kwa mujibu wa sera yake, Benki imetenga asili mia 1 ya faida yake kabla ya kodi kwa mwaka wa 2013 kwa Wakfu wa KCB. Fedha hizi zitafadhili Elimu, Mazingira, maendeleo ya Biashara, Afya na Usaidizi wa Kibinadamu nchini Kenya, Tanzania, Sudani Kusini, Uganda, Rwanda na Burundi. Hii pia ni sehemu ya ahadi yetu ya kutekeleza usaidizi kwa wananchi na kutekeleza ajenda yetu ya jamii endelevu.

### Siku za Baadaye

Katika matarajio yajayo, tuna matumaini makubwa kwamba biashara itaendelea kukua, licha ya matatizo mengi ambayo huenda tukakumbana nayo katika mazingira yetu ya biashara. Tumeweka mikakati na maono madhubuti kwa Benki yetu kuendeleza ukuaji huu katika siku zijazo. Shughuli za benki, kama tunavyozijua siku hizi, zimebadilika katika kipindi cha mwongo mmoja uliopita na kuwa zile za enzi ya dijitali zinazoenda kwa haraka. Ni dhahiri sasa kwamba shughuli za benki zinazoendeshwa kitekinolojia iko katika mstari wa mbele wa sekta katika kanda.

Sisi katika Kampuni ya KCB, tunaamini tuko na wafanyikazi waliojitolea na wako na ujuzi wakutosha kuendeleza matarajio ya Benki. Halmashauri ina imani kuwa Kampuni ya KCB ina uwezo wa kuendelea kuimarisha utendaji wake, huduma kwa wateja na ushindani katika soko.

Ningependa kulishukuru kundi la Wasimamizi na wafanyakazi wa KCB kwa utendaji wao wa kiwango cha juu na kutoa mwito kwao kuendelea na moyo huo. Kutokana na hilo, Benki itaendelea kuafikia matokeo ya kiwango kikubwa kama hiki na kuwa mstari wa mbele katika uwanda wa shughuli za Benki katika Afrika. Wenzangu katika Halmashauri na mimi tutatoa ushauri unaohitajika, muongozo, na kuunga mkono Usimamizi unapoisukuma Kampuni ya KCB kuafikia malengo yake ya kiwango cha kadri na yale ya muda mrefu. Tuko tayari kuipeleka biashara hii katika kiwango kingine cha juu na hatuna shaka kuhusu muelekeo wa maono kwa ajili ya manufaa yako kama mwanahisa wa Kampuni ya KCB.

**Bw. Ngeny Biwott,**
*Mwenyekiti wa Kampuni*

# Chief Executive Officer's Statement

## Embracing Customer Leadership through Innovation

**Dear Shareholders,**

KCB Group continues to operate in six dynamic countries in the East African markets. There were positive trends in the macro-economic environment that were reflected in strong and stable GDP growth, inflation contained at single-digit, foreign exchange stability and decline in interest rates that provided an enabling environment to support our business growth across the markets in which we operate.

The East African Region continues to be the top destination for doing business in Africa. This was well demonstrated during the first three months of 2013, when Kenya held its inaugural elections under a new constitution. The manner in which the whole election process was handled has continued to strengthen confidence for both local and international investors boosting economic growth.

### Business Performance

The year 2013, was good for the business as we reported profit before tax of KShs. 20.1 billion, 17% higher than 2012. KCB is the first Bank to record KShs. 20 billion profitabilty mark in the region. This was supported by an 8% increase in net interest income to KShs. 33.0 billion, a modest growth in foreign exchange income of 1% to KShs. 3.7 billion and a 9.2% increase in fees and commissions to KShs. 10.5 billion.

The balance sheet shows that your business grew by 6%, up from KShs. 368.4 billion in 2012 to KShs. 391 billion last year. Customer deposits grew by 6% from KShs. 288.0 billion in 2012 to KShs. 305.7 billion in 2013, with strong growth coming from corporate, Small and Medium Enterprises (SME), agriculture, micro credit and construction sectors in our regional economies. Net loans and advances grew by 8% to

**Chief Executive Officer**
**Joshua Oigara**

KShs. 227.7 billion in the year 2013 from KShs. 211.6 billion in 2012. This means that KCB continues to have the largest balance sheet in the region and demonstrates unmatched capacity to grow into the future.

Total operating expenses grew by 7% from KShs. 25.3 billion to KShs. 27.0 billion attributed to one-off staff restructuring costs carried out in the year 2013. We are encouraged with the reduction in our Cost to Income ratio from 57.4% to 51.7% during the year, a 570 basis points improvement. It demonstrates that our automation initiatives and cost management strategies are yielding positive results to our business.

The International businesses demonstrated marked improvement with a strong performance of 60% pre-tax profit growth year-on-year from KShs. 1.5 billion in December 2012 to KShs. 2.4 billion in December 2013. This contributed 11.5% to the Group's profitability.

The East African Community (EAC) focus on the realization of a large regional economic bloc encompassing Kenya, Tanzania, Uganda, Rwanda and Burundi with a combined population of more than 130 million people bears great strategic and geopolitical significance and better prospects for our business in the coming years.

Our youngest subsidiary KCB Bank Burundi turned profitable last year. Today, the Kenya business is contributing 88.5% of the Group's earnings from last year's 91.7%. This is an indicator of a strong rebound from the International businesses. In the next two years, our target is to see our International businesses contributing at least 25% of the Group profit. In the year 2014, the Bank will be rolling out products that are successful in Kenya into the regional business so that they can benefit from our one-branch-banking platform and enjoy quality services.

Despite the South Sudan business experiencing political challenges towards the end of 2013, KCB Bank South Sudan business continues to operate. Out of the 21 branches, 17 are fully operational. We do hope that a peaceful settlement will be found so that peace can prevail. We will continue to grow the business in a manner that manages our risks. Today, KCB Bank South Sudan enjoys 50% of the market share and we are very optimistic going forward that South Sudan will flourish and thrive economically.

### Transforming the Business

The Region's economic environment and in particular Kenya, has evolved to allow the country to push into the frontier markets. KCB Group has taken the initiative to provide integrated solutions and innovation to our customers as a key ingredient in the continued economic curve of the entire region. In the last 12 months, we have increased our product portfolio focusing on technology-driven solutions, partnerships and collaborations to address our customer needs, lifestyle and convenience. In order to progress on this, the Bank has invested a lot in capacity building and Information Communications and Technology (ICT) infrastructure to support this innovation that has revolutionized Banking into the digital space. In the coming year, customers will have a choice to enjoy our bouquet of products, service experience, advice

The President of the Republic of Kenya, H.E. Uhuru Kenyatta, (right) presents the trophy to KCB Group CEO, Joshua Oigara (left), after KCB emerged The Best Non-Agro Based Financial Institution Stand That Best Interprets Current Show Theme during the 2013 Nairobi International Trade Fair.

and access at the touch of a button and from the comfort of their homes and offices as we roll this out to our International businesses.

Our most notable achievement has been the launch of KCB M-Benki , a mobile phone banking platform which enables existing and potential customers to open and operate bank accounts right on their handsets. This product provides convenience and flexibility, and has allowed us to expand our banking product suite to include access to credit facilities, bill payments and store purchases. This product, a first in the Kenyan market, allows customers to open up banking accounts without physically visiting the branches and automatically gain access to our banking products and services.

The success of KCB M-Benki has enabled the Bank to realize its objective of incorporating financial inclusion into its product offering. The unbanked population can take advantage of this facility to open up a bank account for themselves and manage their own transactions at the palm of their hand. The benefits of this product are already apparent, with increasing numbers of customers choosing KCB as their bank of choice.

Equally, the launch of Internet Banking, KCB i-Bank, in November 2013, has fulfilled a growing demand for customers with their numbers exceeding the 2.5 million mark, which is a commendable growth. KCB i-Bank gives our customers real time transaction processing across borders, and customized information for easy reconciliation. They are also able to save on paper work and postal statements. In addition, a customer can perform banking transactions, pay their bills online and access e-statement services. The internet banking allows the customers to transact on foreign exchange with reduced paperwork and increased efficiency.

### Investment in Technology

In the year 2007, KCB started its first digital journey with the implementation of the core banking system. The key objective of this implementation was to give KCB Group a robust platform that would provide outstanding customer service and enhance capacity to offer technology-driven products. The successful roll out of this new system has enabled us to launch KCB Contact Centre, KCB Agent Banking, KCB Intelligent ATMs, KCB One-Branch Banking Platform, KCB Mobile Banking, KCB Internet Banking, KCB Diaspora Banking and other technology driven platforms with different partners in the telecommunication sector.

KCB Group aspires to maintain leadership in the application of technology to drive our financial services agenda. During the year, we revamped our website to make it more interactive and multi-functional. The new look KCB Website is reader-friendly and can be navigated through with ease following enhanced content of financial information. It is an integrated one-stop solution for all customer enquiries and offers our customers a variety of contact options to ensure they are able to interact with the Bank. KCB Group aspires to maintain top leadership in the application of technology in the innovation environment.

It equally makes banking convenient and exciting to investors in the region and offer added benefit to partners who want to collaborate with us. If you are looking for any information about KCB


From Left :KCB Group Chief Financial Officer, Collins Otiwu, CEO, Joshua Oigara and Chairman, Ngeny Biwott during the announcement of the Half Year Results.

you will find it once you log onto www.kcbbankgroup.com. This also includes our regional sites for Tanzania, South Sudan, Uganda, Rwanda and Burundi.

We progressed with innovation and launched the KCB Electronic Queue Management System (eQMS). It is one of the services that customers have provided positive feedback and we plan to roll it out to all our KCB branches in the next two years. The system is automated in a way that enables customers, once they walk into a branch, to know which queue and counter they will be served from as they sit and wait. It saves on time and services are offered in an efficient and orderly manner.

### Customer Focus, Partnerships and Products

In January 2013, we launched the KCB Customer Service Charter and unveiled the bank's six-point customer commitment promise to support our customer response levels in our business. These initiatives aim at steering us to transforming the Bank from Good to Great, through exceptional customer experience. Our set target is to achieve Customer Satisfaction Index of more than 99% in the forthcoming year.

We have applied our passion for innovation to help our customers advance from ambition to achievement - a role even more important today, as our more-informed customers confront the future with rapid changes in consumer tastes, stiff competition and preferences. In terms of partnerships, our strategic direction is to position our bank to seize existing and prospective opportunities. The world today has embraced partnerships and it is imperative for us to welcome opportunities to partner with other industry giants, both direct and indirect competitors in order to offer our customers superior financial solutions, value-addition on our products and boost our competitiveness level.

In respect to customer leadership, we will remain extremely innovative with the new trends in the market. We are moving into the new EMV (Europay MasterCard Visa) compliant card dubbed Chip and Pin to safeguard against card frauds. It is also an industry wide initiative and towards the first quarter of 2014, all banks are expected to be compliant. The card migration will enable us to contribute towards the financial inclusion agenda and boost consumer confidence as the economy transitions from cash-oriented to virtual transactions.

In 2013, we launched a cashless payment in partnership with Nakumatt, which has given us the perspective of how this digital space is unfolding. The Nakumatt/ KCB Global MasterCard Prepaid cards empower our customers to transact on a cashless platform across borders. The platform allows Nakumatt Global Prepaid Smart Card holders to load cash at any KCB Branch, KCB Mtaani Agents, KCB ATMs, KCB Mobile Banking (KCB Mobi) and KCB Internet Banking. In addition, the Nakumatt Global Prepaid Smart Card Holders can withdraw cash and make online purchases at any of the Nakumatt stores across East Africa and at any merchant outlet which accepts Master Card payment cards worldwide.

We are making good progress on our pledge to be the Preferred Financial Solutions Provider in Africa with a Global Reach. Going forward, innovation in technology will continue to evolve to benefit our


From left: KCB CEO, Joshua Oigara and KCB Bank Uganda Chairman, Samwiri Njuki, present KCB Former Board Member, Prof. Nzele. D. Nzomo with a gift during the announcement of the 2013 Full Year Results.

# Chief Executive Officer's Statement *(Continued)*

customers and enable us share our different platforms of communication.

### Employee Productivity

Our accomplishments would not have been possible without the dedication and expertise of our employees, to whom I wish to extend my thanks. Since my appointment, I have noted the commitment of our employees to customers and to the Bank and this gives me great confidence about the future success and prosperity of this business.

We have also made progress on our goal to attract the world's very best and fine talent, wherever such people can be found. The last one year witnessed a number of high profile appointments to the bank as we look for a wealth of experience in different departments. We also realigned functions of the organization to better reflect on KCB's long-term business strategy, including the creation of the position of Heads of Islamic Banking, Bancassurance, Corporate and Regulatory Affairs and Customer Service.

### Overall Targets

Although Kenya did not achieve the GDP growth rate target at 4.9%, the Bank is ahead of the curve compared to the financial targets set in the last three years. The stable macro-fundamentals, has also given our customers impetus to grow capital and spur development in various sectors of our economy. We shall continue to leverage on this sustained growth to support our business strategy.

The oil and gas sector, will in the next four years, be the basis for generating immense business in the region. The potential in this sector is huge and KCB is positioning itself to take advantage of the opportunities available to steer our country into the next level of economic growth. Going forward, we expect to see a major shift in the way the market operates. This has the potential to grow the regional GDP and although we might be ahead of time, our focus is to continue in our participation to inspire growth in this young developing sector.

In November, 2013, KCB Group signed an agreement with Ghana International Bank Plc. for a lending facility of USD. 30 million or KShs. 2.58 billion at current exchange rates, to be repaid over a period of three years. This facility will enable the Bank to increase its lending support through foreign currency reserves to Small and Medium Enterprises (SMEs), micro enterprises and the mortgage market. In line with this agreement, the Bank will also increase its lending portfolio in Kenya and its subsidiaries as part of our business growth strategy for the micro and SME sectors.

The numerous accolades won in the Regional and global stage has benchmarked KCB Group among the best in the market. In December 2013, KCB was voted Bank of the Year 2013 - Africa and Bank of the Year 2013 - Kenya by The Banker. Indeed, this recognition shows the growing confidence of the market in KCB Group. We share the joy with all of you shareholders for your contribution to this achievement.

KCB Group Chief Financial Officer, Collins Otiwu (left) receives an award and trophy from Paul Wallace, The Banker Africa Editor (right), in London.
KCB won two awards: Bank of the Year 2013 - Africa and Bank of the Year 2013 - Kenya.

## Corporate Social Investment

KCB Group will continue to support communities through the KCB Foundation. As a Bank we do acknowledge that we have been able to grow as a business because of goodwill from the community where we do business. We will continue to invest in community projects under our five thematic areas namely health, education, environment, enterprise development and humanitarian intervention.

We see enterprise development as an important step towards alleviating poverty and economically empowering our people to be able to utilize our products and services. In the coming year, we shall be rolling out flagship programmes under this thematic area. Through this intervention, we hope that it help improve livelihoods of our population through creation of income generating activities and empowering the youth to get into business rather than seek the ever elusive white collar jobs.

## Sustainability Journey

We continue to leverage on our Sustainability journey that we started in the year 2007. KCB Group is a transformative organization that promotes sustainable management practices as fundamental towards the long-term viability of the business in the context of the social, economic and environmental sustainability. The approval of the KCB Group Sustainability Framework by the Board sets the stage for the implementation of necessary steps to make the bank a sustainable venture.

Sustainability also presents an opportunity to KCB Group to provide information to our stakeholders and assure them that there is continuity of our business and also address issues related to our operations that are not environmentally friendly and what we are doing to address these. In order to progress on this journey, the Framework has identified four pillars that form the foundation for our implementation and that is Social, Environmental, Economic and Financial Sustainability pillars.

## Outlook

Our markets are robust and resilient. We have the right strategy, a powerful brand, a distinctive culture and fantastic people to deliver the targeted objectives for the coming year.

KCB Group is growing its agenda in building a much broader financial services institution. Recently, KCB Capital Limited was licensed by the Capital Markets Authority as an investment bank. KCB Capital Ltd is one wing which naturally comes on to build on our customers experiences, bringing in new aspects into the market whether its exploiting our real estate investment trust, the asset-backed securities or the mortgage backed-securities.

We have also revamped our insurance business. We are a large provider of insurance business for our customers whether they are retail, mortgage or corporate. These areas will be a big captive engine in driving the way the business is going to progress in the next decade.

Lastly, we anticipate 2014 will bring its own blend of successes and challenges, however our mission, vision, values and purpose is very clear. We will continue to focus on Technology and Innovation; Business Efficiency and Growth; International Business Consolidation; Customer Leadership; Sustainability and New Business Opportunities while ensuring sustained profitability for our shareholders.

**Joshua Oigara**
*KCB CEO*

# Taarifa ya Mkurugenzi Mkuu

Mkurugenzi Mkuu
Joshua Oigara

## Kushirikisha Uongozi wa Wateja Kupitia Ubunifu

### Wanahisa Wapendwa,

Kampuni ya KCB inaendelea kutekeleza shughuli zake katika nchi sita katika masoko ya Afrika Mashariki. Kuna mwelekeo chanya katika mazingira ya biashara ndogo ndogo ambao uliakisiwa katika ukuaji thabiti wa Mapato ya Jumla ya Bidhaa na Huduma Nchini,GDP, Gharama ya maisha kudhibitiwa katika takwimu moja, uthabiti wa kubadilisha fedha za kigeni na anguko katika viwango vya riba, ambavyo vilitoa mazingira bora ya kuchapua ukuaji wa biashara yetu kote katika masoko tunakofanya shughuli zetu.

Kanda ya Afrika Mashariki inaendelea kuwa kituo muhimu zaidi cha kufanya biashara katika Afrika. Hili lilibainika wakati wa miezi mitatu ya 2013, wakati Kenya ilipofanya uchaguzi wake chini ya katiba mpya. Mbinu zilizotumiwa kushughulikia mchakato wa uchaguzi huo zimeendelea kuimarisha imani ya wawekezaji wa humu nchini na wale wa kigeni kuimarisha ukuaji wa uchumi.

### Maendeleo ya Biashara

Mwaka wa 2013, ulikuwa bora kwa biashara kwani tuliripoti faida ya kabla ya kodi ya KShs. bilioni 20.1, kiwango cha juu cha asili mia 17 kuliko 2012. Hii ilikuwa Benki ya kwanza kurikodi kima cha KShs. bilioni 20 katika kanda. Hii ilisaidiwa na ongezeko la asili mia 8 katika faida ya jumla hadi KShs. bilioni 33.0, ukuaji wa kadri katika ubadilishaji wa fedha za kigeni wa asili mia 1 hadi KShs. bilioni 3.7 na ongezeko la asili mia 9.2 la ada na mirabaha hadi KShs. bilioni 10.5.

Uwiano wa mali, madeni na umiliki wa hisa unaonyesha kwamba biashara yenu ilikua kwa asili mia 6, kutoka KShs. bilioni 368.4 mwaka wa 2012 hadi KShs. bilioni 391 mwaka jana. Akiba za wateja ziliimarika kwa asili mia 6 kutoka KShs. bilioni 288.0 mwaka wa 2012 hadi KShs. bilioni 305.7 mwaka wa 2013, huku ukuaji mkubwa zaidi ukitoka kwenye mashirika, Biashara ndogo na zile za Kadri (SME), kilimo, mikopo ya kiwango cha chini na sekta za ujenzi katika chumi zetu za kanda. Mikopo ilikua kwa asili mia 8 hadi KShs. bilioni 227.7 mwaka wa 2013 kutoka KShs. bilioni 211.6 mwaka wa 2012. Hii ina maana kwamba KCB inaendelea kuwa na uwiano mkubwa zaidi wa mali, madeni na umiliki wa hisa katika kanda na inadhihirisha kiwango kisichofikiwa cha kukua kuendelea mbele.

Gharama za jumla za shughuli ziliongezeka kwa asili mia 7 kutoka KShs. bilioni 25.3 hadi KShs. bilioni 27.0 zilizoambatanishwa na gharama ya wakati mmoja za kusawazisha wafanyakazi kulikofanywa mwaka wa 2013. Tumetiwa moyo na punguo la gharama zetu kwa uwiano wa mapato kutoka asili mia 57.4 hadi asili mia 51.7 wakati wa kipindi cha mwaka, hiki kikiwa chanzo cha imariko la pointi 570. Inaonyesha kuwa juhudi zetu za kuweka mitambo ya teknolojia na mkakati wa usimamizi vinapata ufanisi bora kwa biashara yetu.

Biashara ya Kimataifa ilionyesha imariko thabiti kukiwa na ubora maridhawa wa asili mia 60 katika ukuaji wa faida kabla ya kodi mwaka kwa mwaka kutoka KShs. bilioni 1.5 mwezi Desemba 2012 hadi KShs. bilioni 2.4 mwezi Desemba 2013. Hii ilichangia asili mia 11.5 kwa faida ya Kampuni.

Mwelekeo wa Jumuia ya Afrika Mashariki wa kuwa na kanda kubwa ya kiuchumi inayojumuisha Kenya, Tanzania, Uganda, Rwanda na Burundi ikiwa na idadi ya watu milioni 130, una umuhimu mkubwa kimkakati na kisiasaeneo na matarajio bora kwa biashara yetu katika miaka inayokuja.

Tawi letu dogo zaidi la Banki ya KCB Burundi lilipata faida mwaka jana. Kwa sasa biashara ya Kenya inachangia asili mia 88.5 ya mapato ya Kampuni kutoka asili mia 91.7 mwaka jana. Hili ni dhihirisho la ufanisi mkubwa wa biashara ya Kimataifa. Katika miaka miwili ijayo, lengo letu ni kuona biashara zetu za Kimataifa zikichanga angalau asili mia 25 ya faida ya Kampuni. Katika mwaka wa 2014, Benki itaanzisha huduma ambazo zimefaulu nchini Kenya katika biashara za kanda ili ziweze kunufaika kutoka kwa huduma zetu za benki za mahali pamoja na kufurahia huduma bora.

Licha ya biashara ya Sudani Kusini kukabiliwa na changamoto za kisiasa kuelekea mwisho wa 2013, biashara ya Benki ya KCB Sudani Kusini inaendelea. Kati ya matawi 21, matawi 17 yanahudumu kikamilifu. Tunatumai kwamba amani itaafikiwa ili amani iweze kutamalaki. Tutaendelea kukuza biashara katika hali inayodhibiti hatari za kibiashara. Kwa sasa Benki ya KCB Sudani Kusini inafurahia mgao wa soko wa asili mia 50 na tuna matumaini kwamba kuelekea mbele, Sudani Kusini itastawi kiuchumi.

### Kubadilisha Biashara

Mazingira ya kiuchumi ya kanda na hasa Kenya, yamebadilika na kuiwezesha nchi kuingia kwenye masoko ya nje. Kampuni ya KCB imechukua jukumu la kutoa huduma unganishi na ubunifu kwa wateja wetu kama kiungo muhimu katika harakati za kiuchumi katika kanda. Katika kipindi cha miezi 12 iliyopita, tumeongeza kiwango cha huduma zetu huku tukilenga huduma zinazoongozwa na teknolojia na ushirika

Mkurugenzi Mkuu wa KCB Joshua Oigara (kushoto) akitoa hundi ya Shilingi laki mbili kwa Moses Mukono (kulia), mshindi wa Mbio za Nyika za KCB kwa wanaume chipukizi.

# Taarifa ya Mkurungenzi Mkuu

katika kushughulikia mahitaji ya wateja wetu, hali ya maisha na maridhisho. Ili kuendelea katika hili, Benki imewekeza kwa kiwango kikubwa katika mafunzo ya wafanyakazi, muundo msingi wa Teknolojia ya Habari na Mawasiliano, ili kuchapua ubunifu huu ambao umebadilisha huduma za Benki kuwa za dijitali. Mwaka ujao, wateja watakuwa na chaguo la kufurahia orodha ya huduma zetu, tajiriba ya huduma, ushauri na kupata huduma kwa kubonyeza kidude mtu akiwa anastarehe nyumbani kwake au ofisini pamoja na kupeleka huduma hizi katika biashara zetu za Kimataifa.

Mafanikio yetu makubwa ni kuanzishwa kwa huduma ya KCB M-Benki, huduma ya benki ya simu ya mkononi ambayo inawawezesha wateja walioko na wanaokuja kufungua na kuendesha akaunti za benki kwenye simu zao. Huduma hii inatoa maridhisho na muda kwa mteja, na imetuwezesha kupanua huduma zetu za benki kujumuisha kupatikana kwa huduma za mikopo, malipo ya bili na ununuzi wa bidhaa madukani. Huduma hii ambayo ni ya kwanza katika soko la Kenya, inawawezesha wateja kufungua akaunti za benki bila ya kufika wenyewe kwenye matawi na kuwawezesha kupata moja kwa moja huduma zetu za benki.

Ufanisi wa KCB M-Benki umeiwezesha benki kuafikia lengo lake la kujumuisha ushirika wa kifedha katika huduma zake. Watu wasio na akaunti wanaweza kutumia fursa ya huduma hii kujifungulia akaunti na kuendesha akaunti hizo wapendavyo. Ufanisi wa huduma hii ni dhahiri, huku idadi kubwa ya wateja ikichagua KCB kama chaguo la kwanza la benki.

Pamoja na hayo, kuanzishwa kwa huduma ya Internet Banking, KCB i-Bank, mwezi Novemba 2013, kumeridhisha ongezeko la idadi kubwa ya wateja huku idadi yao ikifika kima cha milioni 2.5, huu ukiwa ukuaji mkubwa. KCB i-Bank huwapa wateja wetu huduma ya papo hapo kote nje ya mipaka yetu na huduma mahususi ya habari kwa wateja ili kubainisha akaunti zao. Hii inawawezesha kupunguza gharama za karatasi na taarifa za kifedha zinazotumwa kwa njia ya posta. Pamoja na hayo, mteja anaweza kutekeleza shughuli za benki, kulipa bili kupitia mtandao na kupata taarifa kupitia mtandao. Internet Banking inawawezesha wateja kupata huduma za fedha za kigeni kukiwa na matumizi kidogo ya karatasi na utendaji wa hali ya juu.

### Uwekezaji katika Teknolojia

Mnamo mwaka wa 2007, KCB ilianza safari yake ya dijitali kwa kutekeleza mfumo wa mawasiliano wa huduma zake. Malengo makuu ya utekelezaji huu yalikuwa kuipa Kampuni ya KCB jukwaa maridhawa ambalo lingetoa huduma bora zaidi kwa wateja wake na kuimarisha uwezo wa kutoa huduma zinazoendeshwa kiteknolojia. Ufanisi uliopatikana katika kutekeleza mfumo huo mpya umetuwezesha kuanzisha Kituo Kikuu cha Mawasiliano cha KCB, Wakala wa Benki wa KCB, ATM ng'amuzi za KCB, Huduma za KCB Kupitia Tawi lolote, Huduma za KCB za simu za mkononi, KCB Internet Banking, Huduma za Benki za KCB kwa walio nchi za nje, na huduma nyingine zinazoendeshwa kiteknolojia na washirika mbali mbali katika sekta ya mawasiliano.


Mwenyekiti wa Halmashauri ya KCB Sudani Kusini, Charity Muya-Ngaruiya, akitia saini kitabu cha Wawekezaji wakati wa warsha ya Uwekezaji iliyofanywa Juba. Akiangalia ni Mkurugenzi Mkuu wa KCB Joshua Oigara.

Kampuni ya KCB inapania kuwa kiongozi katika utumizi wa teknolojia kuendesha ajenda yetu ya kifedha. Wakati wa mwaka, tuliboresha tovuti yetu ili iwe na mvuto na yenye kutoa huduma mbalimbali. Tovuti hiyo ya

KCB yenye sura mpya ni rahisi kusomeka na sehemu zake mbalimbali zinaweza kukongolewa kwa urahisi kufuatia kuimarishwa kwa habari za kifedha. Ni jawabu la pamoja kwa maswali ya wateja na linawapa njia mbalimbali za kuwasiliana ili kuhakikisha kuwa wameunganishwa na benki. Kampuni ya KCB inapania kuwa katika kilele cha uongozi katika mazingira ya ubunifu yanayotumia teknolojia.

Aidha inafanya shughuli za benki kuwa za maridhisho zaidi na za kufurahisha kwa wawekezaji katika kanda na kutoa manufaa ya ziada kwa washirika ambao wangependa kushirikiana nasi. Iwapo unatafuta habari zozote kuhusu KCB, unaweza kuzipata kwa kukongoa tovuti www.kcbbankgroup.com. Hii pia inahusisha tovuti zetu za kanda za Tanzania, Sudani Kusini, Uganda, Rwanda and Burundi.

Tuliendelea na ubunifu na kuanzisha Mfumo wa KCB wa Kusimamia Foleni Kieletroniki (eQMS). Hi ni huduma ambayo imefurahisha wateja na tunapanga kuianzisha katika matawi yote ya KCB katika kipindi cha miaka miwili ijayo. Mfumo huo umepangwa kujiendesha wenyewe hivi kwamba unawawezesha wateja, punde wanapoingia kwenye tawi la benki, kujua watahudumiwa kupitia foleni gani au kaunta ipi huku wakiketi na kusubiri. Unaokoa muda na huduma zinatolewa kwa njia bora na ya mpangilio.

**Ruwaza kwa wateja, Ushirika na Huduma**

Mnamo Januari, 2013 tulianzisha Muongozo wa Huduma za KCB kwa Wateja na kuanzisha vigezo sita vya wajibu wa benki kujitolea kusaidia viwango vya majibu ya wateja katika biashara yetu. Mikakati hii imelengwa kutuongoza kubadilisha Benki kutoka kuwa bora na kuifanya kuwa thabiti zaidi, kupitia tajiriba ya kipekee ya wateja. Malengo tuliyoweka ni kufikia Kima cha Utoshelevu wa Mteja cha zaidi ya asili mia 99 katika mwaka unaokuja.

Tunachochea azma yetu ya ubunifu kuwasaidia wateja wetu kuendelea kutoka dhamira hadi mafanikio; jukumu ambalo linaendelea kuwa muhimu leo, huku wateja wetu wenye uelewa zaidi wanapokabiliana na hali ya baadaye kukiwa na mabadiliko ya haraka katika mapendeleo ya mteja, ushindani mkali na chaguzi. Kwa upande wa ushirikiano, mwelekeo wa mkakati wetu ni kupanga benki yetu kutumia nafasi zilizopo na zile zinazokuja. Ulimwengu leo unajihusisha na ushirikiano na ni muhimu kwetu kukubali fursa za kushirikiana na miamba wengine katika sekta, iwe ni washindani wa moja kwa moja au wasio wa moja kwa moja ili kuwapa wateja wetu huduma bora zaidi za kifedha, kuboresha huduma zetu na kuimarisha kiwango cha ushindani wetu.

Kwa upande wa uongozi wa wateja, tutaendelea kuwa wabunifu thabiti kwa kuzingatia mwelekeo mpya wa masoko. Tunaingia katika mfumo mpya wa kadi ya EMV (Europay Mastercard Visa) ili kujikinga dhidi ya walaghai wanaotumia kadi. Hii ni shughuli ya sekta nzima na kufikia robo ya kwanza ya 2014, benki zote zinatarajiwa kuzingatia mabadiliko haya. Matumizi mapya ya kadi yatatuwezesha kuchangia ajenda ya pamoja ya kifedha na kuimarisha imani ya mteja huku uchumi ukibadilika kutoka shughuli za fedha taslimu hadi zile zinazoendeshwa kwa kadi.

Mwaka wa 2013, tulianzisha ushirika wa kufanya malipo bila pesa taslimu na Nakumatt, ambao wametupa mwelekeo wa jinsi mfumo huu wa dijitali unanavyoendelea. Kadi zilizolipiwa awali za Nakumatt/

Kina dada wa Idara ya Mauzo ya KCB Uganda, Pricilla Akora, Illona Ndagire na Jean Mugisha pamoja na Mkurugenzi Mkuu wao wakionyesha tuzo la Uwajibikaji wa Kampuni kwa Jamii waliloshinda katika tuzo za Uhusiano Bora nchini Uganda.

# Taarifa ya Mkurungenzi Mkuu *(Yaendelea)*

KCB Global MasterCard zinawawezesha wateja wetu kufanya manunuzi kwenye mfumo huu bila fedha hata nje ya mipaka. Mfumo huu unawawezesha wale wenye kadi za Nakumatt Global Prepaid Smart Card kuzijaza fedha kwenye tawi lolote la KCB, wakala wa KCB Mtaani, ATM za KCB, Huduma za benki za KCB kwa simu ya mkononi (KCB Mobi) na hudumu za benki za KCB kupitia mtandao. Pamoja na hayo, wamiliki wa Nakumatt Global Prepaid SmartCard wanaweza kutoa fedha na kufanya manunuzi kupitia mtandao katika duka lolote la Nakumatt kote Afrika Mashariki na mahali popote duniani ambapo huduma zinalipiwa kupitia Master Card.

Tunaendelea vyema katika katika ahadi yetu ya kuwa Mtoaji wa Huduma za Kifedha Anayependwa zaidi Afrika mwenye uwezo wa kufika kote duniani. Katika siku zijazo, ubunifu wa teknolojia umeendelea kubadilika kunufaisha wateja wetu na kutuwezesha kutumia kwa pamoja mifumo yetu mbali mbali ya mawasiliano.

### Juhudi za Wafanyakazi

Mafanikio yetu hayangewezekana bila ya kujitolea na ujuzi wa wafanyakazi wetu, ambao ningependa kuwashukuru. Tangu kuteuliwa kwangu nimeshuhudia kujitolea kwa wafanyakazi wetu kwa wateja na kwa Benki na hili linanipa imani kuu kuhusu ufanisi wa siku zijazo na ufanisi wa biashara hii.


(Kutoka kushoto) Mkurugenzi wa KCB wa Biashara Rejareja Annastacia Kimtai, Mkurugenzi Mkuu wa KCB Joshua Oigara, Mkurugenzi wa Uwekaji Benki wa Mashirika, James Agin na Kaimu Mkurugenzi wa Maswala ya Uhusiano Bora na Usawazishi wa Shirika, Judith Sidi Odhiambo, wakati wa kuanzishwa kwa Klabu ya wanachama wa KCB Biashara tawi la Masai Mara.

Pia tumepiga hatua katika lengo letu kuvutia wajuzi bora zaidi duniani, kokote tunakoweza kuwapata. Kipindi cha mwaka mmoja uliopita kilishuhudia kuteuliwa kwa watu wa nyadhifa za juu katika benki tunapoangalia tajiriba pana katika idara mbalimbali. Pia tuliainisha sehemu za kampuni ili kuakisi malengo ya muda mrefu ya mikakati ya kibiashara ya KCB, ikiwemo kubuniwa kwa Mkuu wa Huduma za Benki kwa Waislamu, Bancassurance, Maswala ya Kampuni na Usawazishi na Huduma kwa Wateja.

### Malengo ya Jumla

Ingawa Kenya haikuafikia kiwango chake cha ukuaji cha asili mia 4.9 cha Mapato ya Jumla ya Bidhaa na Huduma Nchini (GDP) Benki iko mbele kulinganishwa na malengo ya kifedha yaliyowekwa miaka mitatu iliyopita. Uthabiti wa misingi ya biashara ndogondogo, umewapa wateja wetu uwezo wa kukuza mtaji na kuchochea maendeleo katika sekta mbalimbali za uchumi wetu. Tutaendelea kutumia ukuaji huu thabiti kuhimili mkakati wetu wa biashara.

Katika kipindi cha miaka minne ijayo, sekta ya mafuta na gesi, itakuwa msingi wa kuchangia wingi wa biashara katika kanda. Uwezo wa sekta hii ni mkubwa na KCB inajipanga kuingia katika fursa zitakazopatikana kuipeleka nchi yetu katika kiwango kingine cha juu cha ukuaji. Katika siku zijazo, tunatarajia kuona mabadiliko katika mwelekeo wa jinsi soko linavyoendelea. Hii ina uwezo wa kukuza GDP ya kanda na ingawa huenda tukawa mbele ya wakati, ruwaza yetu ni kuendelea na ushirika ili kuhimiza ukuaji katika sekta hii changa.

Mwezi Novemba, 2013, Kampuni ya KCB iliweka saini ya makubaliano na Benki ya Kimataifa ya Ghana ya mkopo wa Dola za Marekani milioni 30 au KShs. bilioni 2.58 kwa viwango vya sasa vya kubadilisha fedha, ambao utalipwa katika kipindi cha miaka mitatu. Mkopo huu utaiwezesha Benki kuboresha uwezo wake wa kukopesha biashara ndogondogo (SMEs) na soko la ujenzi wa nyumba kwa mikopo kupitia usaidizi wa akiba ya fedha za kigeni. Sambamba na makubaliano haya, Benki pia itaongeza uwezo wake wa kutoa mikopo nchini Kenya na katika matawi yake kama sehemu ya mkakati wetu wa kukuza biashara ndogondogo.

Pongezi za ufanisi kutoka jukwaa la Kanda na duniani, zimeiweka Kampuni ya KCB miongoni mwa benki bora katika soko. Mwezi Desemba 2013, The Banker iliiteua KCB kuwa Benki bora zaidi Afrika na Benki Bora nchini Kenya kwa kushinda mataji mawili makuu ya dunia. Kwa kweli utambuzi huu unadhihirisha imani ya soko katika Kampuni ya KCB. Tunafurahia kwa pamoja na nyinyi wenye hisa kwa mchango wenu katika ufanisi huu.

### Usaidizi kwa Jamii

Kampuni ya KCB itaendelea kusaidia jamii kupitia kwa Wakfu wa KCB. Tukiwa Benki tunakiri kwamba tumeweza kukua kama biashara kutokana na nia njema ya jamii tunakohudumu. Tutaendelea kuwekeza katika miradi ya jamii katika sekta za afya, elimu, mazingira, maendeleo ya biashara na usaidizi wa kibinadamu.

Tunaona maendeleo ya kibiashara kama hatua muhimu katika kupunguza umaskini na kuwapa watu wetu uwezo wa kiuchumi ili waweze kutumia huduma zetu. Katika mwaka unaokuja, tutaanzisha miradi muhimu katika sekta hizo. Kupitia usaidizi huu, tunatumai kuwa maisha ya watu yataboreka kupitia ubunifu wa shughuli za kuzalisha fedha na kuwawezesha vijana kuingia katika biashara badala ya kuendelea kutafuta kazi haba za afisini.

### Safari Endelevu

Tunaendelea kujichepuza kwenye safari yetu endelevu tuliyoanzisha mwaka wa 2007. KCB ni Kampuni inayobadilika na inayoendeleza kanuni endelevu za usimamizi kama msingi wa kufikia malengo ya biashara ya muda mrefu kwa maana ya kijamii, kiuchumi na uendelevu wa mazingira. Kuidhinishwa kwa Mfumo Endelevu wa kampuni ya KCB na Halmashauri kumeweka msingi wa kutekelezwa kwa hatua muhimu kuifanya benki kuwa biashara endelevu. Uendelevu pia unatoa fursa kwa Kampuni ya KCB kutoa taarifa kwa washikadau wetu na kuwahakikishia kuwa biashara yetu inaendelea na pia kuzungumzia maswala yanayohusiana na shughuli zetu ambazo hazitilii maanani mazingira na kile tunachofanya kusuluhisha haya. Ili kuendelea na safari hii, Muundo umebainisha vigezo vinne ambavyo ni msingi wa utekelezaji wetu. Vigezo hivyo ni Kijamii, Mazingira, Uchumi na Uthabiti wa Kifedha.

### Mwelekeo

Masoko yetu ni thabiti na yasiyo tetereka. Tuna mkakati sawia, jina maarufu, utamaduni wa kipekee na watu waadilifu wa kuafikia malengo ya mwaka ujao.

Kampuni ya KCB inakuza ajenda yake katika kujenga taasisi kubwa zaidi ya huduma za kifedha. Hivi majuzi KCB Capital ilipewa leseni na Halmashauri ya Soko la Hisa kuwa benki ya uwekezaji. KCB Capital ni tawi ambalo litaongeza tajiriba ya wateja wetu, kuleta mwelekeo mpya kwenye soko ama likiwa linatumia mfuko wa uwekezaji wa biashara ya nyumba, hisa zinazoegemea mali au hisa zinazoegemea ujenzi wa nyumba za mikopo.

Pia tumeimarisha biashara yetu ya bima. Sisi ni watoaji wakubwa wa bima ya biashara kwa wateja wetu wakiwa wale wa rejareja, mikopo ya nyumba au mashirika. Maeneo haya yatakuwa kiini kikuu katika kuamua mwelekeo wa biashara katika muongo ujao.

Hatimaye, tunabashiri mwaka wa 2014 utakuwa na mafanikio na changa moto zake. Hata hivyo Kauli Mbiu, Ruwaza, Maadili na malengo yetu yako dhahiri. Tutaendelea kulenga kwenye Teknolojia na Ubunifu; Ubora wa Biashara na Ukuaji; Kuimarisha Biashara ya Kimataifa; Uongozi katika hudhuma kwa wateja; Uendelevu na Fursa Mpya za Biashara, huku tukihakikisha kuimarika kwa faida kwa ajili ya wanahisa wetu.

**Joshua Oigara**
*Mkurugenzi Mkuu wa Kampuni ya KCB*

# KCB 2013 Partnerships


KCB CEO, Joshua Oigara presents a gift pack to MasterCard MEA President, Michael Miebach during his Courtesy call at Kencom House.


Signing the partnership from Left: President & CEO , GE Africa, Jay Ireland, KCB CEO, Joshua Oigara and USAID Associate Administrator, Mark Feierstein. The agreement with KCB specifically covers access to financing for a range of GE Healthcare equipment, manufactured globally, including at several U.S. locations.


From Left: Mastercard Division President, Daniel Monehin, Diamond Trust Bank CEO, Ms. Nasim Devjl, KCB CEO, Joshua Oigara and Nakumatt Holdings Managing Director, Atul Shah during the launch of the Nakumatt Global Prepaid Smart Card at Thika Road Mall on 23rd October 2013.


Post Master General, Dr. Enock Kinara, (left) and Chief Business Officer and MD Kenya, Samuel Makome, (right) after signing the strategic partnership agreement with Postal Corporation of Kenya (PCK) . The partnership will enable both to share payment infrastructure and capitalize on their expansive branch networks locally, in line with the bank's financial inclusion agenda.

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# Sustainability Statement

### Our Vision

In line with our vision to be Africa's preferred financial solutions provider with global reach, KCB is focused on delivering its services in a way that benefits our customers, communities and stakeholders in the region and beyond as well as the broader environment. We are creating value both directly through our products and services and through our strategic initiatives with partners.

We believe that sustainability will ensure our long-term business success, in accordance with our mission to grow our existing business whilst building the platform to be Africa's preferred financial solutions provider with global reach. By contributing towards economic and social development, a healthy environment and a stable society, we reaffirm the basis of the Bank's corporate value of - *caring for our community.*

### Our Sustainability Performance Highlight

Sustainability is becoming embedded into KCB Group's Core Business. The emphasis is on the key performance areas that define the parameters of the KCB Group Sustainability Framework. These areas and their quantifiable indicators are being monitored across the business enabling us to report our track record with increasing detail and to identify opportunities to take Sustainability to a new level in this journey to make our business strong into the future Sustainability is at the heart of our corporate strategy helping us to drive revenues, reduce costs, reduce risks and build our brand and reputation. Through the comprehensive

**To grow our existing business competitively in the market place and deliver long lasting financial benefits to the society.**

**Financial Stability:**
To ensure that KCB anticipates, prepares for and manages risk, credit control and all compliance requirements to run our business in the most efficient way possible

**Environmental Sustainability:**
To maximize the reduction, reuse and recycling of the materials and non-renewable resources we use in our business to protect the natural environment for future generations

**Economic Sustainability:**
To actively contribute to the broader economies we operate in through job creation, financial contribution and exemplary corporate behaviour to ensure we earn our license to operate in these markets

**Social Sustainability:**
To operate in a growing economy where KCB is an integral enabler, helping to provide secure livelihoods and actively participate in the communities in all our markets

**Corporate Strategy**

**Sustainability Vision and Strategy**
Developing the corporate and business strategy on sustainability

**Financial Stability**
- Financial performance
- Profitability
- Responsible lending
- Sustainable banking products and services
- Product and service marketing
- Economic Development

**Economic Sustainability**
- Risk Management and lending policies
- Mission, Vision and Purpose
- Governance
- Lending portfolio
- Sustainable savings (efficiency and cost control)
- Economic Empowerment of the poor

**Social Sustainability**
- Community Health and well being
- Corporate Social Investment
- Humanitarian Intervention
- Education and training
- Employment practises

**Environmental Sustainability**
- Energy Efficiency
- Environmentally conscious products and services
- Waste Management
- Water Management
- Supply Chain
- Business Travel

**Sustainability Capability Development**
Developing the policies, processes and tools, skills and capabilities to achieve KCB's sustainability and business objectives

**Stakeholder Management, Partnerships and Communications**
Building trust, brand and reputation through effective stakeholder engagement and thought leadership on sustainability

**Sustainability Performance Management**
Providing actionable performance data, producing sustainability reports and effectively managing performance

* How sustainability will deliver value on the corporate strategy through the sustainability performance management process

integration of sustainability throughout our policies and processes, we can fulfil our vision to grow our business competitively in the marketplace while delivering long-lasting benefits to society.

We recognise that we have a much broader societal role beyond delivering profits. KCB believes that finance and capital can play a fundamental role in driving economies, developing communities and improving the lives of our customers. In seeking to implement best practice in sustainability, we shall endeavour to forge close and effective relationships with our stakeholders. As an organisation we can enable social advancement, prosperity and limproved ivelihoods across all areas of our operations, from our suppliers to our end customers.

To this end, we shall strive to drive social, economic and environmental benefits through developing products and services that deliver business success and positive social outcomes: M-benki, our new product allows people to bank via simple mobile phones to drive the financial inclusion agenda. Our agency banking is designed to reach out to the unbanked and increase network access into remote areas.

### Integrating Sustainability

Our sustainability strategy aims to implement operational efficiency initiatives in our business, through the KCB Green Agenda. This agenda focuses on building strong links and partnerships through regular stakeholder interactions; ISO 14001 certification and annual sustainability reporting and driving social and environmental benefits, including financial inclusion across our communities.

# Sustainability Statement *(Continued)*

As we increase our focus on efforts to shape a more sustainable world, the Bank will continue to invest in long-term opportunities, strong customer relationships, robust governance and prudent management of risk. Over the last few years, we have made strong progress across these core areas, as well as mapping out a forward looking course of action for the sustainability agenda.

-The KCB Group Board approved our Sustainability Framework in August 2013, setting the stage for its application across the Group. The purpose of the Sustainability Framework is to formalize our approach to sustainability, and to provide guidelines for the introduction, development and maintenance of proactive social and environmental management processes and procedures. The Board Risk Committee is responsible for reviewing and challenging the Bank's Sustainability Policy, as well as other related policies and procedures.

As a responsible corporate citizen, and in accordance with global best practice, our stakeholders expect us to operate in compliance with various laws, statutes, regulations and other legal and social provisions in furtherance of our business objectives in the markets in which we operate. In our interactions with different stakeholders locally, regionally and internationally, we will strive not only to assure them that our business is sustainable, but actively demonstrate the value we deliver through effectively managing our social and environmental performance. To this end, we have formally adopted an Environmental and Social Management Systems (ESMS) system into our business. We will continue to drive our sustainability agenda forward and maintain our focus on delivering positive impacts in every market in which we operate.

## Managing Risk for a Sustainable Future

**Financial Stability**

**58 Billion**
Kenya Shillings of revenues generated by the group

**Sustainability Framework**
KCB Board approves KCB Group Sustainability Framework and implementation

**100%**
The percentage of staff that completed courses on ethical business practice

**Economic Sustainability**

**5.7 Billion**
Kenya Shillings spent on contributions to the broader economy through taxes.

**SEMS Implementation**
Integration of Social and Environmental Management Systems (SEMS) into the credit process

**6,489**
The number of employees in KCB Group a growth of 1% in 2013, down from 12% in 2012.

**Social Sustainability**

**1,500**
Employees trained in Environmental and Social Risk assessment (ESRA)

**600 Million**
The amount of Kenyan Shillings invested in community building since 2007

**100%**
All KCB product and service information has been aligned the new CPA requirements

**Environmental Sustainability**

**Solar ATM**
Successful pilot project running an ATM in Maasai Mara 100% on solar energy

**6513 Tonnes**
The tonnes of $CO_2$ emissions from our business operations in 2013

**20,000**
The number of seedlings planted in Government Gazetted Forest, in 2013 to offset our negative environmental impacts

## Managing Risk for a Sustainable Future

### Overview

KCB has an enterprise-wide risk management framework and processes to manage group-wide risks. This is supported by clearly defined policies, roles and responsibilities which are documented and subject to regular review. KCB ensures that all risks inherent in its business activities are identified and treated under the appropriate risk category namely, credit, operational, market liquidity, information, compliance, strategic and reputation risks.

Effective risk management is fundamental to the business activities and a key component of the delivery of sustainable returns to its stakeholders. The Bank seeks to increase the shareholder value through maximizing the risk adjusted rate of return while growing the business within the Board approved risk appetite. In this regard, the Group has implemented a comprehensive Risk Management Framework to identify, evaluate, monitor, control and mitigate all material risks and to assess the overall capital adequacy in relation to the risk profile.

The responsibility and accountability for risk management resides at all levels within the Group, starting with the Board and cascaded through the organization to each business and risk management level. Risks are controlled at the level of individual exposures, at portfolio level, as well as in aggregate across all businesses and risk types.

### Strategy and objectives

The Board of Directors seeks to ensure that its business strategies are clearly linked to its risk appetite towards ensuring that capital resources of the Group are optimally managed. The risk management approach adopted by KCB is guided by five key principles:
Principle 1: Balancing risk and return
Principle 2: Responsibility
Principle 3: Accountability
Principle 4: Anticipation
Principle 5: Competitive Advantage

### Risk Management Framework

The Group risk framework clearly defines the roles, responsibilities and reporting lines for various business units whilst aiming to safeguard the Bank's assets and resources as well as to ensure compliance to regulatory norms. The delegation of authority, control processes and operational procedures are documented and disseminated to staff.

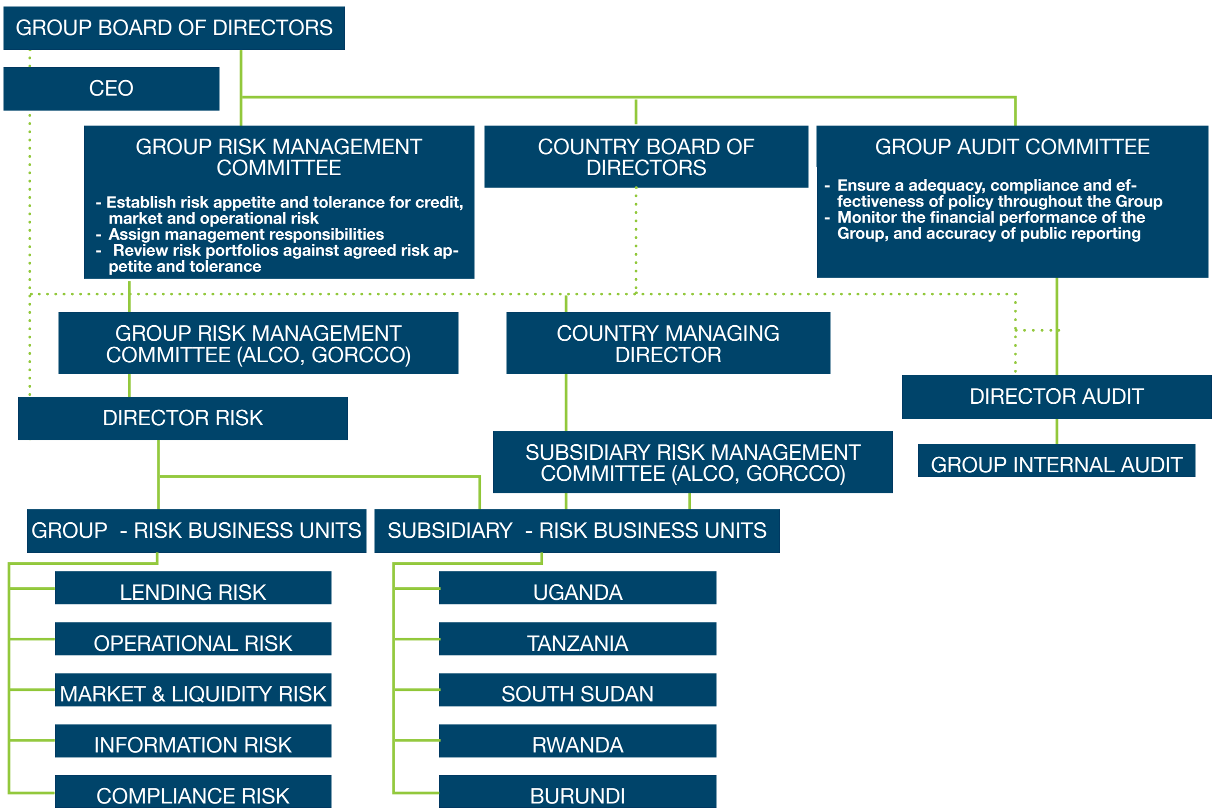
The KCB Group Board Risk Management Committee has oversight on all Risk Matters. Management is accountable to the Board for ensuring the effectiveness of risk management and the adherence to the risk appetite.

A strong risk management capability is seen as vital for the success of a well-managed bank. The Group Risk function is central for driving such capabilities at KCB. It has the functional responsibility, on a day-to-day basis, for providing independent risk control and managing credit, market, operational and information risks.

### Risk Appetite Governance Model

KCB has implemented a Risk Appetite Framework to ensure the long term viability of the Bank's business activities by articulating risk appetite throughout the Group and to external stakeholders. The Group risk appetite framework facilitates the determination, review and oversight of risk appetite and acts as a key bridge between the bank's strategy and its risk management framework.

## Risk Management Governance Structure




### Enterprise–wide stress testing

As part of its core risk-management practices, the Bank conducts enterprise-wide stress tests on a periodic basis to better understand earnings, capital and liquidity sensitivities to certain economic scenarios, including economic conditions that may be more severe than anticipated. These enterprise-wide stress tests provide an understanding of the potential impact to the Bank's risk profile, capital and liquidity.

The stress tests generate and consider pertinent and plausible scenarios that have the potential to adversely affect the business.

KCB's stress-testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite;
- Identify key risks to the Bank's strategy, financial position and reputation;
- Examine the nature and dynamics of the risk profile and assess the impact of stress situations on the Group's profitability and business plans;
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- Inform senior management; and
- Ensure adherence to regulatory requirements.

### Basel II/III Framework

The Group's capital management objective is to maintain a strong capital position consistent with the expectations of various stakeholders, i.e. customers, investors and regulators, while delivering returns to shareholders and ensuring adequate capital resources are available for business growth, investment opportunities as well as adverse situations.

KCB and each of its subsidiaries were in compliance with all prescribed capital ratios throughout the financial year. Since June 2009, the Bank has implemented the Basel II Standardized Approach to the measurement of credit risk and market risk and Basic Indicator Approach for operational risk. The Group views Basel II as part of its continuing efforts to strengthen its risk management culture and ensure that business growth is pursued across targeted segments and markets with the appropriate risk management discipline, practices and processes in place.

The risk management framework proposed in Basel II seeks to ensure that the strategies formulated by a bank are clearly linked to its risk appetite, so that its capital resources are managed at an optimal level to support both its risk and strategic objectives. Basel II is anchored on the following three pillars:

**Pillar 1:** *Minimum Capital Requirements:* is based on Risk Weighted Assets (RWAs) and seeks to maintain minimum capital levels calculated through credit, market and operational risks.

**Pillar 2:** *Supervisory Review Process:* Covers regulating tools and frameworks for dealing with peripheral risks the bank faces.

**Pillar 3:** *Market Discipline:* Seeks to increase the disclosures that the bank must provide to increase the transparency.

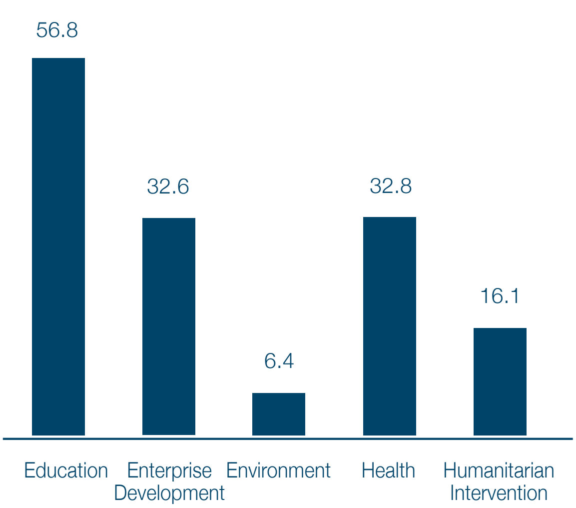
See the analysis of the Credit, Market, Operational and other risks on Notes 4 and 5 of the Financial Statements.

# KCB Foundation Report

Since the Foundation's inception in 2007, over KShs. 500 million has been invested in community initiatives. The reach of the programs has been immense and positively transformed lives across the Eastern Africa Region. However for the value of the investments to be validated, there is an ever increasing need to demonstrate impact in concrete terms. Consequently, 2013 was a year of consolidation for the KCB Foundation as it reviewed its strategy to ensure that it develops and supports larger more sustainable programs that have a capacity to truly impact lives and sustain the legacy of the institution across the region.

The Foundation's investments in 2013 are summarized in the table below:

**Foundation Investments (KShs. Million)**




**ENTERPRISE DEVELOPMENT**

**Objective:** ***Reduction of absolute poverty***

**Investment:** ***KShs. 33,646,354***

1. *Capacity building for over 600 small scale entrepreneurs*
2. *Production equipment to over 10 small scale enterprises*

### Enterprise Development

In the era of globalization, generating economic growth in developing countries while reducing poverty is a fundamental development challenge. With this in mind, the KCB Foundation supports small scale enterprises and the cottage industry as these are the drivers of the economy at household level. Interventions at this level contribute to the growth of the economy in terms of employment and nurture a new crop of entrepreneurs.

Our Enterprise Development programs align themselves to Millennium Development Goal no. 1 on Eradication of extreme hunger and poverty, through a combination of capital support such as provision of equipment, training, mentorship and market linkages. Key initiatives funded include:

- Provision of soya milling machines to soya bean farmers in Vihiga county through Rural Outreach Programme (ROP). Soya flour fetches more in the market than the raw bean and the waste from the milling process can be used for animal feeds.

- Set up of a banana farm and rabbit project as livelihood support for over 50 households in Kiambu and Muranga in partnership with Ahadi Kenya. The beneficiaries were drawn from the recovered jigger victims. Due to the good sales from the rabbits, the group has gone on to purchase an incubator for additional income generation.

- Installation of a drip irrigation system for a fruit production farm for LORUSA along the River Turkwell in Turkana, in partnership with the USADF.

- *KCB Made in Uganda* in partnership with the Uganda Small Scale Industries Association. This project aims to promote the growth and development of the cottage industry in Uganda. Over 200 small scale entrepreneurs received business skills training and formal training on their craft such as tie and dye, briquette making, peanut processing.

- In Burundi, 20 young entrepreneurs who participated in the country's only business plan competition received training. Through the *Up skilling Burundi Artisans Project,* a further 20 entrepreneurs underwent training in product finishing, production technique and manufacturing standards. On completion of the course, these beneficiaries unanimously agreed to each train and mentor 20 entrepreneurs.

- The Foundation also partnered with the Federal Chamber of Commerce and Industry of Burundi (CFCIB) to fundraise for the restoration of Bujumbura's market after it burnt down at the beginning of the year

## EDUCATION

**Objective:** ***Increase access to education***

**Investment:** ***: KShs. 56,809,665***

1. *Learning materials for over 200 learning institutions across the region*
2. *Secondary school scholarships for 240 bright but needy students*

- 533 SMEs received capacity building training in Tanzania and they will be linked into the bank's Biashara Club in order to help them grow.

- In Rwanda, rural saccos in all of the country's five provinces underwent business management skills training in budgeting and control and received laptops

### Education

Owing to the increasing need to address the region's skill gaps, Education continues to be a priority area for the KCB Foundation to support. In Kenya, the influx of children in primary schools due to the free primary education policy has meant that there is now a greater demand for secondary education and yet a large number of families cannot afford the fees thus high drop out in the transition between primary and secondary level. East Africa's newest nation, South Sudan is also building a skill base to drive the country's growth thus the

Pauline Ndonga of KCB Foundation (left), Anti jigger Brand Ambassador, Cecelia Mwangi (second from left) and CEO of Ahadi Kenya, Stanely Kamau (right) with one of the beneficiaries of the Banana livelihoods Projects in Murang'a.

need to support as many children as possible. Some of the major highlights within this thematic area are:

- Secondary school scholarships for 200 needy bright students in Kenya and 40 in South Sudan. The beneficiaries in Kenya were selected through a rigorous branch led process and the scholarship covers tuition fees, uniform and basic learning materials. The students are also assigned to a mentor who they meet every school holiday. Further, we held the inaugural Mentorship Activity over the August holiday where we brought together all the beneficiaries for three days of learning, interaction and motivation. In South Sudan, four beneficiaries are selected from each of the country's 10 provinces.

**ENVIRONMENT**

**Objective:** ***Environmental conservation through strategic community partnerships***

**Investment:** ***KShs. 6,355,411***

1. *Over 1.5 million trees planted across the region*
2. *750 solar lamps to school going children*
3. *Construction of 2 sand dams*

- In support of Rwanda's switch of language of instruction from French to English, the Foundation partnered with the Kigali Institute of Education (KIE) to provide scholarships to teachers from each of the 30 districts.

- Over 200 learning institutions have received learning materials such as desks, books, laboratory equipment, water harvesting equipment and construction of some schools facilities across the region.

- In Tanzania, schools were encouraged to partner on a desk matching program where the schools fundraised for 10 desks and the Foundation matched with 90 desks. Seven government ward schools have so far benefitted from this project.


Uhuru Branch, Relationship Officer, Innocent Makaso (second from right) sharing ideas with students at Sinza Primary School during handover of the desks

**Environment**

Care and protection of the environment remains a strategic investment of the KCB Foundation given the numerous challenges being experienced in the region due to negative impacts resulting from the degradation of the environment. In a bid to recover some of the lost forest and to contribute towards the government efforts to attain the Millennium Development Goal 7, which aims to safeguard environmental sustainability, we have designed environment programs that have evolved over the course of time. Highlights in 2013 include:

**HEALTH**

**Objective:** ***Increase access to affordable and quality health care***

**Investment:** ***KShs. 32,828,059***

1. *Kidney transplant for 10 children*
2. *Dialysis machines for 4 public hospitals*
3. *Heart operations and catheterization for 15 children and rheumatic heart disease screening for 10,000 children*

- Planting of 20,000 seedlings on Mau Likia, Kenya. The local communities in the area are reaping handsome benefits from this re-afforestation exercise. Our Foundation has funded environmentally friendly economic activities within the forest that include bee keeping as well as propagation of tree nurseries. The seedlings planted in the forest are sourced from the communities' nurseries.

- County environment days and clean-up activities through our branch network in Kenya in Mpeketoni, Kapsabet, Kajulu in Kisumu and Bomet.

- In Rwanda, Gitarama Health Centre in Muhanga received new environment friendly roofs to replace the harmful asbestos roofs. Consequently they can now harvest rain water. Additionally, all the branches participate in the Umuganda 'National clean-up day'

- In Uganda, in partnership with Village Energy, the Foundation distributed 750 solar lamps to school going children and installed solar lighting systems in five institutions. It also provided support for various clean-up activities and recycling project

- In Tanzania, 2,800 trees with the schools that were beneficiaries of the desk matching program.

- Our colleagues in Burundi planted trees at the Wangari Maathai corner in Bujumbura

KCB Director, Eng. Musa Ndeto, officially hands over the Dialysis machine with a handshake to the Provincial Director of Medical Services, Dr. Shirkelly Khadija Sood, (Left), Ag. Acting Head of Nursing, Esther Nyaga,(second Left), and Coast General Hospital, Chairman, Moses Obonyo (Right) during the KCB Foundation Dialysis machine handover.

### Health

A healthy nation is a wealthy nation. In fact four of the eight UN Millennium Development Goals are dedicated to the promotion of health as without a healthy populace, all other efforts are in vain. The KCB Foundation health pillar is thus anchored on its commitment and determination to improve quality and access of health services through provision of hospital equipment and treatment services. This has been achieved through strategic partnerships in provision of holistic medical interventions by working with health providers to improve quality and access to health services. Community support in this area in 2013 included:

- Funding of kidney transplants for 10 children in Kenya. The first set of four were operated on in August at the Kenyatta National Hospital. Their operations were the first ever successful pediatric kidney transplants to be conducted in Kenya thus putting Kenya on the medical map
- The renal units of Kakamega PGH, Coast PGH and Kisii PGH received dialysis machines. These bring the total number of dialysis machines donated over two years to nine and it is hoped that this equipment will help ease the burden for patients who require dialysis and have in the past required to travel vast distances in order to get treatment.

**HUMANITARIAN INTERVENTION**

**Investment: *KShs. 16,132,805***

1. *Over 160 orphanages and care centres receive donations*
2. *30 goats and 15 pigs for two community groups in Rwanda*
3. *Relief items for over 1000 displaced persons in the South Sudan conflict*

- Heart operations and catheterization for 15 children and rheumatic heart disease screening for 10,000 children through the partnership with Mater Hospital in Kenya
- In Burundi, the refurbishment of wards at the Prince Regent Charles Hospital was completed as was the maternity ward at the Juba Military Hospital in South Sudan
- In Tanzania, six hospitals in Mwanza, Moshi, Arusha, Daresalaam, Zanzibar and Morogoro received equipment for the pediatric and maternal wards.
- In Uganda, 16 hospitals received baby incubators as part of the support for the maternal health project and the continued partnership with AMREF on the cleft lip repair has seen over 100 patients receive the corrective surgeries

One of the ten beneficiaries of the first ever successful paediatric kidney transplants to be conducted in Kenya sponsored by KCB Foundation in partnership with the Kenyatta National Hospital.

### Humanitarian Intervention

The Foundation continues to lend a hand to the less fortunate in the community as well as respond to disasters as required.

- Donation of relief items for over 1000 displaced persons in the South Sudan conflict

- In Kenya, at least 10 schools received dormitory equipment following various fires incidences. During the Christmas week, over 160 branches put in their time, effort and resources to spread the Christmas cheer by distributing food stuffs, clothing and learning materials to various institutions across the country.
- In Rwanda, in commemoration of the genocide, various community groups received donations of sustenance items. In Muhanga and Nyamasheke districts, some of the women groups received capital boosts of goats and pigs to grow their income generation programs.

# 2013 KCB Foundation Initiatives

Staff members during the construction of a sand dam along river Thange in Kibwezi District, Makueni Constituency. The dam, constructed by KCB Foundation in partnership with Africa Sand Dam Foundation will benefit members of Wendano wa Mambo Group to gain access to clean water for domestic and farming use.

A baby incubator donated to St Joseph's Hospital in Moshi, Tanzania by KCB TZ.


KCB Foundation Chairman Catherine Kola (second left) and Director Catherine Kimura (far left) hand over the kidney transplants cheque of KShs. 5 million to three of the children that underwent kidney transplants and the Kenyatta National Hospital officials led by their former CEO Richard Lesiyampe (centre) and Dr. Were, Head of the KNH Renal Unit (third from the far left).

KCB Foundation Mentorship programme

KCB | Foundation

# INVESTING IN OUR COMMUNITIES


Since 2007, the KCB foundation has created a strong legacy of giving time and over KES 600m to our communities across Eastern Africa.

**CONTACT US ON:** 0732 187000 / 0711 087000 / 020 228 7000 contactcentre@kcb.co.ke kcbbankgroup @kcbgroup

KCB Foundation

**www.kcbbankgroup.com**

# Corporate Governance Statement

The Group Board is responsible for the long-term strategic direction for the profitable growth of the Group, with a view to ensuring sustainable returns for shareholders having regard to the interests of stakeholders. It is committed to observing the highest standards of corporate governance and business ethics as set out from time to time by the Capital Markets Authority, Central Bank of Kenya, regulators of the Subsidiaries and remains at the forefront in adopting international best practice whilst being accountable to the shareholders for legal and regulatory compliance.

The Group Board has set transparent and clear policies, procedures, structures and systems, which achieve effective, prudent, integrated and consistent management and oversight of the Group's activities both at an individual entity basis and Group-wide basis. These enhance risk management, internal controls, cost effectiveness and Group profitability in line with the Group's Values, Vision, Mission, Purpose and Strategy while embedding best practice in Corporate Governance.

During the year under review, the Board approved and implemented the Group Governance Policy.

### The Board of Directors

The Board's conduct is regulated by the provisions of the Board Charter. It defines the governance parameters within which the Board exists and operates, sets out specific responsibilities of the Board, members of the Board and Board Committees. It also stipulates the policies and practices of the Board in respect of induction, appointments, conflict of interest, code of conduct, performance evaluation and remuneration of the Directors among others.

The day-to-day running of the business of the Company is delegated to the Chief Executive Officer but the Board is provided with full, appropriate and timely information so that they can maintain full and effective control over the business of the Group.

The Board also makes recommendations to the shareholders on Board succession planning, appointment of auditors, dividend payout and annual financial statements.

### Composition of the Board

The Board is made up of 11 Directors out of whom nine are Independent Non-Executive Directors, including the Chairman and two are Senior Bank Executives.

The Directors have the required mix of skills, experience, and professional and industry knowledge necessary to meet the company's strategic objectives and bring unfettered independent judgement to bear on the issues of strategy, performance, resources, key appointments and standards of conduct.

### Board Meetings

The Board of Directors meet regularly as required in order to effectively and efficiently monitor the implementation of the Company's planned strategy, review it in conjunction with its financial performance and business development and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning.

The Notice, Agenda and detailed Board Papers of meetings are circulated on a timely basis to ensure that the Directors receive accurate, timely and clear information in a form and of a quality appropriate to enable it to discharge their duties.

The Board held 11 Meetings during the year under review. The Board Membership is disclosed on Page 68 of the Directors and Statutory Information.

### Board Effectiveness Evaluations

At the end of each financial year, the Board reviews itself, Board Committees, Senior Management and CEO against targets agreed at the beginning of the year.

In March 2014, the Board completed the 2013 annual evaluation that covered self-evaluation, evaluation of the Chairman and the overall Board. The process was led by the Group Chairman and supported by the Group Company Secretary. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya in the first quarter in line with regulatory requirements.

### Board Committees

The Board has created the following principal Committees which meet regularly under well defined and materially delegated terms of reference set by the Board. In August 2013, the Board Committees composition was reconstituted. The delegation of various authorities to the Committees does not in any way constitute an abdication of Board responsibility for the affairs of the Company.

#### (a) Risk Management Committee

The Committee was set up to oversee the Group's mitigation and appreciation of all risks in the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. Business continuity issues are also discussed by this Committee.

The Committee had four Meetings during the year. The Members of this Committee during the year under review were: -

1) Mr. Adil Khawaja (Chairman)
2) Prof. Peter Kimuyu
3) Mrs. Charity Muya-Ngaruiya
4) Mrs. Catherine Kola
5) Mr. Joshua Oigara

#### (b) Audit Committee

The Audit Committee meets quarterly. In accordance with regulatory requirements, the Committee comprises only non-executive members of the Board who are independent of the day-to-day management of the Company's operations.

The Committee deals with all matters relating to the financial statements and internal control systems of the Company including dealing with independent auditors and Central Bank of Kenya inspectors. All the audits conducted by this Committee are risk based.

The Committee held 11 Meetings during the year under review. The Members of this Committee in the year under review were:-

1) Mrs. Charity Muya-Ngaruiya (Chairman)
2) Eng. Musa Ndeto
3) Gen. (Rtd.) Joseph Kibwana

#### (c) Credit Committee

This Committee meets twice a month to review the credit risk profile of the Company and recommend for Board approval customer facilities, policies and standards for credit risk governance and management. The frequency of the Meetings has ensured that the needs of the Company's customers are given timely attention. The Committee also reviews the Company's risk appetite and sectoral concentration.

The Committee held 27 Meetings during the year under review. The Members of this Committee in the year under review were:-

1) Mr. Protus Sigei (Chairman) (taking over from Mrs. Catherine Kola in August 2013)
2) Mrs. Catherine Kola
3) Prof. Peter Kimuyu
4) Mr. Tom Ipomai
5) Mr. Joshua Oigara

### (d) Human Resources Committee

This Committee meets quarterly to review human resource policies and make suitable recommendations to the Board on Senior Management appointments. This Committee also oversees the nomination functions and senior management performance reviews. During the year, the Committee reviewed Group Human Resources Policies to ensure compliance with changing international Human Resources practices according to business needs.

The Committee held 11 Meetings during the year under review. The Members of this Committee in the year under review were:-

1) Mr. Tom Ipomai (Chairman) (taking over from Mr. Ngeny Biwott in August 2013)
2) Mr. Protus Sigei
3) Mr. Adil Khawaja
4) Mrs. Charity Muya-Ngaruiya
5) Mr. Joshua Oigara

### (e) Procurement Committee

The Committee meets bi-monthly to review the procurement needs of the Company deemed necessary for efficient service delivery.

The Committee held five Meetings during the year under review. The Membership of this Committee in the year under review was:-

1) Prof. Peter Kimuyu (Chairman)
2) Mr. Adil Khawaja
3) Mr. Tom Ipomai
4) Gen. (Rtd.) Joseph Kibwana
5) Mr. Joshua Oigara

### (f) Strategy Committee

The Committee was constituted by the Board to oversee and provide direction, on the Board's behalf, on five areas that is Strategy Direction including its implementation and monitoring process, New Markets Expansion, Significant Investment and Divestment Decisions, Annual Business & Financial Plans & Budgets and Sustainability. The 2014 Strategic Plan and Budget for the Group were prepared with substantial input from this Committee.

The Committee held five Meetings during the year. The Membership of this Committee in the year under review was:-

1) Gen. (Rtd.) Joseph Kibwana (Chairman)
2) Mr. Protus Sigei
3) Eng. Musa Ndeto
4) Mr. Adil Khawaja
5) Prof. Peter Kimuyu
6) Mr. Joshua Oigara

### (g) IT Committee

The Committee was constituted by the Board to review the scope and the effectiveness of IT operations and provide direction on enhancing the utility of IT resources through clearly laid down processes, procedures and time frames.

The Committee held four Meetings during the year. The Members of this Committee in the year under review were:-

1) Mr. Tom Ipomai (Chairman)
2) Mrs. Charity Muya-Ngaruiya
3) Mr. Protus Sigei
4) Eng. Musa Ndeto
5) Mr. Joshua Oigara

### Professional Advisors

The Board is of the view that to carry out its responsibilities in an independent and impartial fashion it should seek and benefit from professional counsel. The Directors have full access to the advice of the Company Secretary. They are also entitled to obtain professional advice on any matter at the Company expense should they deem this necessary.

### KPMG

Whereas the Directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, KPMG examine and give their opinion on the reasonableness of the financial statements. KPMG report independently and directly to the Board at the half year and end year Board Meetings.

### Communication with Shareholders

The Company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the release of notices in the media of its quarterly, half-yearly and full year results electronically. The Bank has a shareholder communication system and Investor Relations Strategy led by the CFO.

The Company is in compliance with its obligations under the Nairobi Securities Exchange Listing Rules, (other rules of exchanges where KCB is Cross-listed) Capital Markets Authority Act, the Banking Act and Central Bank of Kenya Act together with CBK Guidelines issued thereunder.

### Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2013 is disclosed in Note 17 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

Aggregate amount of loans advanced to Directors is summarized in Note 37 to the Financial Statements.

### KCB Capital Limited

During the year under review, KCB Capital Limited was incorporated to undertake investment banking and wealth management on behalf of the Group.

KCB Capital Limited is currently securing a trading license from the Nairobi Securities Exchange.

### KCB Insurance Agency

KCB Insurance Agency was relaunched with a view of capturing the captive insurance business and Bancassurance. This is regulated by the Insurance Regulatory Authority.

### KCB Foundation

In recognition of the importance of Corporate Social Responsibility (CSR), the Board constituted this Foundation which meets twice a year to set guidelines for the Company's CSR involvement. The Foundation is registered as a Company limited by guarantee and managed by its own Board of Directors. The Company is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans.

Under its CSR programmes, the Company conducts community support activities every year across the region, with the involvement of all staff across the business. The Company funds community projects and regularly donates towards needy and charitable causes of all kinds. Foundation activities are clustered under the thematic areas of Health, Education, Environment, Enterprise Development and Humanitarian Intervention.

## Board and Board Committee Attendance

The following table gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31st December, 2013:-

| NO. OF MEETINGS HELD | MAIN BOARD | AUDIT | CREDIT | RISK MANAGEMENT | HUMAN RESOURCES | PROCUREMENT | STRATEGY | INFORMATION TECHNOLOGY |
|---|---|---|---|---|---|---|---|---|
| | **11** | **11** | **27** | **4** | **11** | **5** | **5** | **4** |
| **MEETINGS ATTENDED** | | | | | | | | |
| Mr. Ngeny Biwott | 11 | | | 2 | 7 | 3 | 2 | 2 |
| Mrs. Catherine A. Kola | 11 | 1 | 24 | 3 | | | 4 | |
| Mrs. Charity Muya-Ngaruiya | 11 | 11 | | 3 | 11 | | | 4 |
| Mr. Tom Ipomai* | 7 | | 13 | | | 1 | | 2 |
| Mr. Henry Rotich **(Represented by Protus Sigei)** | 11 | 1 | 24 | | 11 | | 5 | 4 |
| Eng. Musa Ndeto | 11 | 5 | | | | | 2 | 2 |
| Mr. Adil Khawaja | 10 | 1 | 8 | 4 | 1 | 3 | 3 | 1 |
| Gen (Rtd.) Joseph R. Kibwana | 11 | 5 | | | | 5 | 5 | |
| Prof. Peter K. Kimuyu | 11 | 7 | 11 | 3 | | 5 | 1 | |
| Mr. Joshua Oigara | 11 | 7 | 13 | 2 | 9 | | 3 | 2 |
| Mr. Collins Otiwu** | 3 | | | | | | | |

* Mr. Tom Ipomai joined the Board in July 2013

** Mr. Collins Otiwu joined the Board in September 2013

**For the year ended 31 December 2013**

## Directors Interests as at 31st December, 2013

| Name of Director | Number of Shares | % Shareholding |
|---|---|---|
| Permanent Secretary to the Treasury of Kenya | 523,600,000 | 17.55 |
| Eng. Jeremiah Musa Ndeto | 45,985 | - |
| Mr. Joshua Nyamweya Oigara | - | - |
| Mrs. Catherine Adongo Kola | 25,540 | - |
| Gen Joseph Raymond Kibwana | 87,764 | - |
| Mr. Ngeny Biwott | 1,500 | - |
| Prof. Peter K. Kimuyu | - | - |
| Mr. Adil A. Khawaja | - | - |
| Mrs. Charity Muthoni Muya-Ngaruiya | - | - |
| Mr. Tom Ipomai | - | - |
| Mr. Collins Otiwu | - | - |
| Mr. Joseph Kania | - | - |

## Shareholders' Profile as at 31st December, 2013

| | Shareholders | Number of Shares | % of Issued Share Capital |
|---|---|---|---|
| Kenyan Individual Investors | 150,365 | 821,583,291 | 27.53 |
| Kenyan Institutional Investors | 5,256 | 1,418,644,517 | 47.54 |
| East African Individual Investors | 151 | 1,409,308 | 0.05 |
| East African Institutional Investors | 34 | 9,667,077 | 0.32 |
| Foreign Individual Investors | 440 | 13,965,265 | 0.47 |
| Foreign Institutional Investors | 170 | 718,958,234 | 24.09 |
| | **156,416** | **2,984,227,692** | **100.00** |

## Major Shareholders

| | Number of Shareholders | % Shareholding |
|---|---|---|
| Permanent Secretary to the Treasury of Kenya | 523,600,000 | 17.55 |
| National Social Security Fund | 225,596,743 | 7.56 |
| Standard Chartered Nominees Non Resident A/C 9318 | 65,868,374 | 2.21 |
| KanaksinhKarsandas & Sandip KanaksinhBabla | 59,261,000 | 1.99 |
| Standard Chartered Nominees A/C 9688 | 53,490,723 | 1.79 |
| Standard Chartered Kenya Nominees Ltd A/C KE18965 | 44,132,400 | 1.48 |
| CFC Stanbic Nominees Ltd A/C R48701 | 43,775,626 | 1.47 |
| Standard Chartered Nominees A/C 9687 | 40,570,686 | 1.36 |
| Standard Chartered Nominees Non Resident A/C 9867 | 39,373,400 | 1.32 |
| Standard Chartered Nominees Account KE14353 | 28,802,043 | 0.97 |
| | **1,124,470,995** | **37.68** |

## Summary of Totals

| Shares Range | Shareholders | Number of Shares | % Shareholding |
|---|---|---|---|
| 1 to 5,000 | 126,682 | 211,905,362 | 7.1 |
| 5,001 to 50,000 | 27,896 | 288,421,327 | 9.7 |
| 50,001 to 100,000 | 795 | 55,275,360 | 1.9 |
| 100,001 to 1,000,000 | 806 | 235,388,061 | 7.9 |
| 1,000,001 to 10,000,000 | 207 | 719,236,903 | 24.1 |
| 10,000,001 & above | 30 | 1,474,000,679 | 49.4 |
| | **156,416** | **2,984,227,692** | **100** |

# Board of Directors

**From Top Left**

Mr. Collins Otiwu – Chief Financial Officer, Prof Peter Kimuyu - Director, Mr. Tom Ipomai - Director, Mrs. Charity Muya-Ngaruiya - Director, Mr. Adil A. Khawaja - Director, Mr. Joshua Oigara – Chief Executive Officer

**From Bottom Left**

Gen. (Rtd.) J. R. E. Kibwana - Director, Eng. Musa Ndeto - Director, Mr. Henry Rotich – Cabinet Secretary, National Treasury, Mr. Ngeny Biwott - Chairman, Mrs. Catherine Kola - Director, Mr. Joseph Kania – Company Secretary

* Protus Sigei is the alternate to the Cabinet Secretary, National Treasury

**NGENY BIWOTT** *GROUP CHAIRMAN*

He joined the Group Board in June, 2011 and was elected the Group Chairman in August, 2013. During his tenure he has served as the Chairman of the Human Resources Committee, Director of KCB Bank Tanzania, and has previously served in the Audit, Risk, Procurement, Information Technology and Strategy Committees. He has over 37 years work experience in the aviation industry and holds an MSc Degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. In addition, he has Specialized Certification in Risk and Strategy from Cranfield, Southern California Universities and as well as Langley NASA Research Centre.

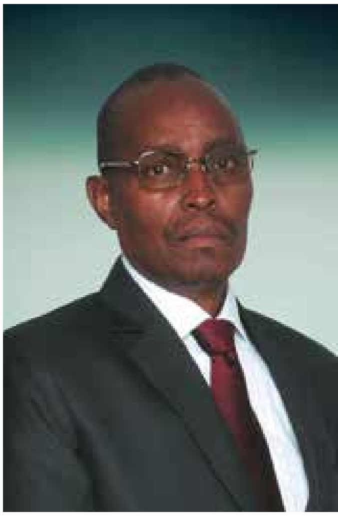
**HENRY ROTICH** *CABINET SECRETARY/THE NATIONAL TREASURY*

Mr. Henry K. Rotich is the Cabinet Secretary for National Treasury. Prior to this appointment, He was Head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. Under this capacity he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the area of fiscal and financial sector. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between, 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. Mr. Rotich was also a Director on several Boards of State Corporations, including: Insurance Regulatory Board; Industrial Development Bank; Communication Commission of Kenya; and Kenya National Bureau of Statistics. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from University of Nairobi.

**ENG. MUSA NDETO** *DIRECTOR*

He joined the Board in June 2003 and interrupted his service to Kenya Commercial Bank Board from 2006 to 2009 when he re-joined the Board. He has served as Member and Chairman of KCB Bank South Sudan and also as the Group Chairman of the Board. He is a Member of the IT, Audit, and Strategy Committees. He holds a Bachelor of Science (Hons) in Electrical Engineering, Masters in Business Administration (MBA, Finance) and Masters in Business Administration (MBA, Strategic Management). He is a member of IEE (UK) and practices as a Consulting Electrical Engineer. He served as a Board Director of Kenya Electricity Generating Company (KenGen)

## Board of Directors *(Continued)*



**PROF. PETER KIMUYU, MBS** *DIRECTOR*

He joined the Board in 2006. He holds a PhD in Economics from the University of Nairobi. He is a member of the New York Academy of Sciences, a Professor of Economics and Founder Director of School of Economics at Nairobi University. He is the current Chairman of the Privatization Commission of Kenya. In addition to this, he serves as the Chairman of KCB Bank Rwanda, Chairman of the Procurement Committee and also sits in the Credit, Risk and Strategy Committees.

**CATHERINE KOLA** *DIRECTOR*

She joined the Board in June , 2009. She has over 30 years' experience covering Legal Practice, Development Banking, financial and energy markets as well as company secretarial and general management in the Financial and Energy Sectors. She also served as the Chief Executive Officer of the Interim Independent Boundaries Review Commission. She is an advocate of the High Court of Kenya, Commissioner for Oaths and Notary Public, a Certified Public Secretary, and an associate member of the Chartered Institutes of Arbitrators. She holds a Bachelor of Laws (LL.B) Honors Degree from the University of Nairobi and Diploma from the Kenya School of Law. Mrs. Kola serves as Chairman of the Staff Retirement Benefits (Defined Contribution) Scheme (2006). She also serves as the Chairman of the KCB Foundation Board and KCB Bank Burundi. She is a member of the Credit and Risk Committees.

**CHARITY MUYA-NGARUIYA** *DIRECTOR*

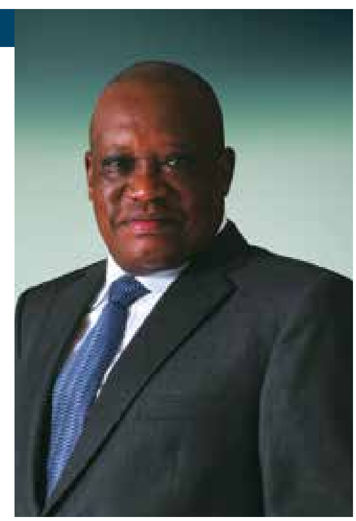
She joined the Board in June 2012. She holds a Bachelor of Commerce Degree and a Masters in Business Administration from the University of Nairobi. She is a Fellow of Certified Accountants (FCCA), Certified Public Secretary (CPS) Chartered Institute of Arbitrators. She holds a Certificate of Advanced course in Investment Banking. She is a trainer in Governance, Member of Institute of Directors, Honorary member of the Institute of Financial Analysts. She is a Management and Financial Restructuring expert having over thirty five years experience in financial management. She has served as a council member of Institute of Certified Public Accountants, a member of the Registration of Accountants Board, member of the Examination Committee of Kenya Accountants and Secretaries National Examination Board. She is the Chairman of the Group Audit Committee and also serves in the Risk, Information Technology and Human Resources Committees and as Chairman of KCB Bank South Sudan Board.

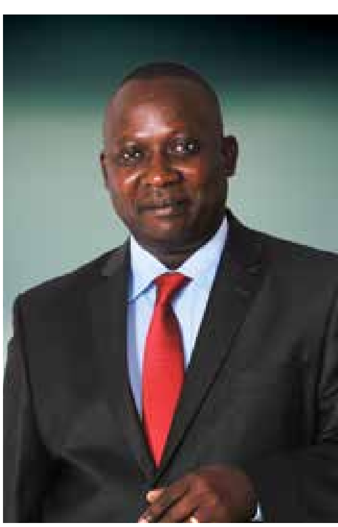
**ADIL KHAWAJA** *DIRECTOR*

He joined the Board in June 2012 and holds an LLB (Hons) degree from the University of Sheffield England. A Diploma in Law from the Kenya School of Law and is a Certified Public Secretary (CPS). He is also a member of the London Court of International Arbitration (LCIA). He is the managing partner of the law firm Hamilton Harrison and Mathews Advocates. He is the Chairman of the Bank's Group Risk Committee and a Director of the KCB Bank Tanzania. He sits in the Human Resources, Procurement and Strategy Committees.

**Gen. (Rtd) JOSEPH R. KIBWANA, EGH, CBS** *DIRECTOR*

He joined the Board in June 2012. He is the Chairman of the Strategy Committee and a Member of the Audit and Procurement Committees. He is also a Director of KCB Bank Burundi. An Alumni of the Britannia Royal Naval College, the US Naval Staff College and the US Naval War College, he retired from the Kenya Armed Forces in 2005 having served as the Chief of the General Staff (2000-2005), the Commandant of the National Defense College (1998-2000) and the Commander of the Kenya Navy (1988-1998). Upon his retirement from active duty, he was appointed Chairman of the Board of Directors of the Kenya Ports Authority (2005-2008). He is currently the Chairman of the Board of Directors of Kenya Trade Network Agency.





**TOM IPOMAI** *DIRECTOR*

He joined the Board in July, 2013. He is a Corporate Finance specialist. He graduated with a First Class Honours degree in Computer Science at the University of Nairobi. Tom later did postgraduate studies at the University of Cambridge (Jesus College) as a Commonwealth Scholar studying for a Master of Philosophy (MPhil) in Management Studies. Tom eventually wrote his Association of Certified Chartered Accountants (ACCA) examinations completing them in straight passes in two years and all by home study. Tom has previously worked in the Central Bank of Kenya, Barclays Bank in UK, Kenya and Zambia and Deloitte's corporate finance advisory division. Tom currently works as the Chief Executive Officer of Ler Ltd, a real-estate focused Investment Company. He serves as the Chairman of Human Resources and IT Committees. He also sits in the Credit and Procurement Committees.

# Board of Directors *(Continued)*

**JOSHUA OIGARA** *CHIEF EXECUTIVE OFFICER*

He was appointed as the Group Chief Executive Officer in January 2013. He previously served as the Group Chief Financial Officer of the Bank prior to his appointment. He holds a Masters in Business Administration with distinction in International Business Management from Edith Cowan University, Australia (2011), a Bachelor of Commerce Degree in Accounting from the University of Nairobi, Kenya and Advanced Management Program Graduate from INSEAD, Fontainebleau, France (2010). He is also a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA (2006) as well as a Certified Public Accountant of Kenya, CPA (K), School of Accountancy, Strathmore University, Kenya (1997). He is a trustee of the KCB Foundation, a member of the Board of directors in KCB Bank Tanzania Board and sits in the Risk, Credit, Human Resources, Strategy and Information Technology committees.

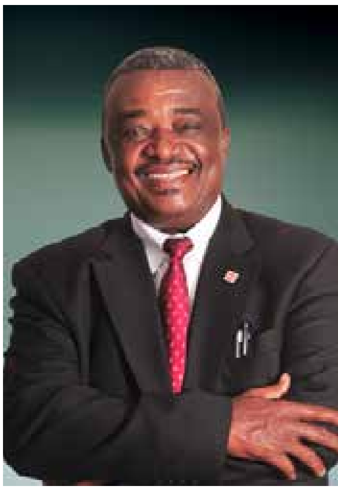
**COLLINS OTIWU** *GROUP CHIEF FINANCIAL OFFICER*

He was appointed as the KCB Group Chief Financial Officer in June, 2013. He holds a Masters of Business Administration (MBA) degree in Finance from the University of Warwick (Warwick Business School), United Kingdom, Bachelor of Commerce Degree, Accounting option from the University of Nairobi, Kenya. He is a Certified Public Accountant, CPA(K) and a Certified Information Systems Auditor (CISA). He is a Board member of the Group and also sits on the KCB Bank South Sudan Board where he chairs the Risk and Strategy committees and also sits in the Audit committee. Prior to joining the KCB Group, he worked at Equity Bank as Finance Director, British Telecom (BT) in London as Group Head of Finance & Treasury and British Petroleum (BP) in London as Senior Manager, Policy. He also worked at HSBC in London as Manager, Policy and at PricewaterhouseCoopers (PwC) both in London and Nairobi.

**JOSEPH KANIA** *COMPANY SECRETARY*

He joined the Bank in July, 2013 with over 20 years' experience as an advocate of the High Court and 10 years experience as a Company Secretary. He joins the Bank from Housing Finance Company of Kenya where he was the Company Secretary. Other roles previously held include: - Senior Legal Officer at Industrial and Commercial Development Corporation and Legal Officer at Senator Cards/ Southern Credit Corporation. He holds an LLB from University of Nairobi and is an advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a CPS (K) Certified Public Secretary of Kenya and an Associate Member of the Chartered Institute of Arbitrators.

# Subsidiary Directors KCB Bank Tanzania Limited Board



## DR. EDMUND B. MNDOLWA *CHAIRMAN*

He joined the Board in April, 2010. He holds an MBA from Mzumbe University in Banking and Finance and PhD in Finance. He is also a graduate of the Commonwealth Association of Corporate Governance. He is a professional accountant who qualified as an ACCA in the United Kingdom in December, 1972, then working for the East African Community until 1976. He joined Deloitte in 1977 where he worked for four years up to 1980 serving the last two years as a Partner. He joined PWC as a Partner in January 1981 where served as a Senior Partner until his retirement in June 2009 after 29 years of service. Over the years he has served as a Non Executive Director of NBC and as Chairman of the Board of Tanzania Postal Bank.

## CATHERINE N. KIMURA *DIRECTOR*

She joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations, a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Havard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance.

## ADIL KHAWAJA *DIRECTOR*

He joined the Board of KCBT in August 2012. Adil Khawaja is a lawyer by profession with vast experience of 17 years in practice. He specializes in commercial, conveyancing, litigation and arbitration. He has experience in other legal areas such as dispute resolution, land and planning, environmental laws, complex restructuring, banking and security law, conservation and hotel management. Adil Khawaja is a partner at Hamilton Harrison & Mathews and he was appointed to the Group Board with effect from 3rd July 2012. He serves at different Boards such as Trustees Kenya Wildlife Service, Friends of Conservation and Care for the Wild Kenya. He is also an active member of Kenya Law Society and served as a member of National Environment Council from 2005 to 2009.

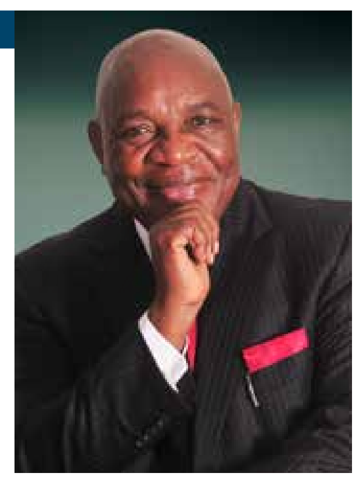
## Subsidiary Directors KCB Bank Tanzania Limited Board *(Continued)*

### ZUHURA S. MURO *DIRECTOR*

Mrs Zuhura Sinare Muro was appointed to the KCBT Board in July 2011. Mrs. Muro holds a Bachelor of Arts & Social Sciences from the University of Dar es Salaam, Tanzania and a Postgraduate Diploma in Management and Entrepreneurship Development. She is currently the Managing Director of Kazi Services Limited which provides HR solutions, management consultancy, and executive selection services in Tanzania. She has rich experience in Organizational Development, HR management, training and motivational speaking. Before founding her own business, she was the Head of Human Resources for Celtel Tanzania Limited (now trading as Airtel) from 2001 until May 2007. Mrs. Muro is one of the founding trustees of Africa Leadership Initiative East Africa Foundation and is currently serving as its Executive Secretary. The Foundation is engaged in developing value-based leadership in East Africa. She is a fellow of Aspen Global Leadership Network. Mrs. Muro serves as the Board Chairperson of Mwananchi Communication Limited in Tanzania, member of Nation Media Group in Kenya, and Board Secretary of Arusha Modern Schools Limited.

### NIKUBUKA P. SHIMWELA *DIRECTOR*

He joined the KCBT Board in March 2010. He holds a Master's degree in public policy and administration from the University of Wisconsin at Madison, WI USA (1977) and a Bachelor's degree, with honours, in economics, management and administration from the University of Dar es Salaam (1973). He is currently Chairman of the Fair Competition Commission, member of the Tax Revenue Appeals Tribunal and CEO and Lead Consultant at Kasuto Company Limited. He has been external director of many companies including the former state-owned National Bank of Commerce.



### NEHEMIA K. MCHECHU *DIRECTOR*

Nehemia Kyando Mchechu joined the Board in July 2011. He holds Bachelor Degree in Commerce and Management from the University of Dar es Salaam. He further qualified for ACI-Financial Market Association. He is currently the Director General of National Housing Corporation. Before joining the National Housing, he worked as the Managing Director and CEO of Commercial Bank of Africa Tanzania Limited. He has also worked with Barclays Tanzania and Standard Chartered rising to senior management roles. He is the Director and founding member of CEO roundtable of Tanzania. He is also a director of the Presidential Trust Fund and Chairman of Rightways Schools. He is a fellow member of the ASPEN Fellowship of USA as well as African Leadership Initiatives; East African Chapter. He also serves as the Chairman of Audit Committee.

## Subsidiary Directors KCB Bank Tanzania Limited Board *(Continued)*

**JOSHUA OIGARA** *DIRECTOR*

He was appointed as the KCB CEO on January, 2013. He previously served as the Chief Financial Officer of the Bank prior to his appointment. He holds a Masters in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia (2011), Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi, Kenya (1997), Advanced Management Program Graduate from INSEAD, Fontainebleau, France (2010). He is also a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA (2006) as well as a Certified Public Accountant of Kenya, CPA (K), School of Accountancy, Strathmore University, Kenya (1997). He is a Board member in KCB Bank Tanzania Board and sits in the Risk, Credit, Human Resources, Procurement, Transformation, Strategy and Information Technology committees.

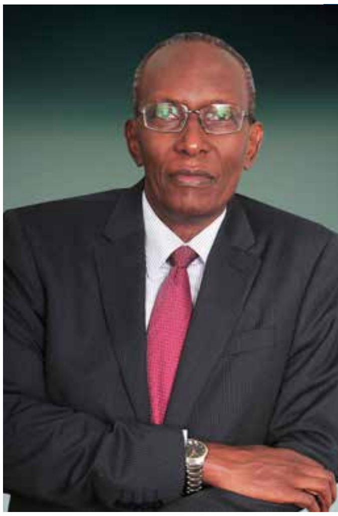
**MOEZZ MIR** *MANAGING DIRECTOR*

He joined the Bank in April 2007 and holds a Bachelors Degree in Economics from Kingston University in England. He was appointed to the Board in July 2011, and previously held the position of Director of Corporate Banking for Tanzania. He has over 10 years' experience in Corporate Finance and Banking. He previously worked for Imperial Bank Limited as the Head of Corporate Banking in Kenya.

**EDWARD LYIMO** *SECRETARY*

He joined the bank in January 2011 as the Company Secretary and Head of Legal. He has a Bachelor of Laws Degree (LLB Hons) from the University of Dar es Salaam in Tanzania. He has attended various courses and workshops in legal management, International Law, dispute settlement and leadership. He is also an advocate of the High Court of Tanzania. He previously worked with Barclays Bank Tanzania Limited, Institute of Finance Management and Allen and Overy LLP. He is also a member of Tanganyika Law Society and East Africa Law Society.

# Subsidiary Directors KCB Bank Uganda Limited Board *(Continued)*



**SAMWIRI H. K. NJUKI** *CHAIRMAN*

He joined KCB Bank Uganda Board in November, 2007. He holds a Bachelor of Arts (Honors) Degree from the University of Nairobi and an Advanced Diploma in Economics of Banking. Before he joined KCB Bank (U), he had worked as the Managing Director of Orient Bank Uganda Limited from where he retired in July 2007. He was the Chairman of Uganda Bankers Association and Uganda Securities Exchange. He has been in banking for over 35 years.

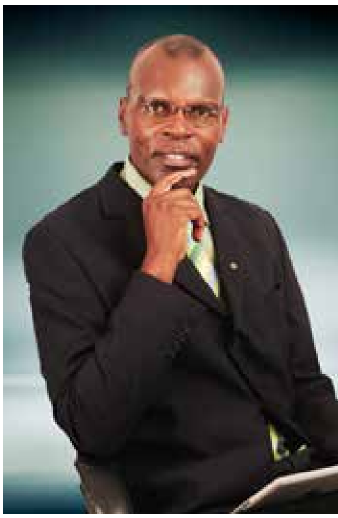
**FLORENCE KATA** *DIRECTOR*

She joined the KCB Bank Uganda Board in July 2009. She has over 28 years of experience in both the public and private sector, specializing in marketing of services and products, to international markets. She has a Bachelor of Arts (Honors) Degree in Economics/Rural Economics from Makerere University, Post Graduate Diploma in Business Management and a Masters in Management. She is an Executive Director, Uganda Export Promotion Board.

**DAVID M. NYENDE** *DIRECTOR*

He joined KCB Bank Uganda Board in August 2008. He holds a Bachelor of Commerce Degree from Makerere University, is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a member of the Uganda Institute of Certified Public Accountants (CPA). He also holds a Post Graduate Diploma in Forensic and Investigative Audit from the British Columbia Institute of Technology, Canada. He is currently the Principle Partner of Continental Partners Certified Public Accountants based in Kampala. He has diverse international experience in Finance and related disciplines obtained in several countries including Nigeria, the U. K., Germany, Kenya, Tanzania Uganda and South Sudan.

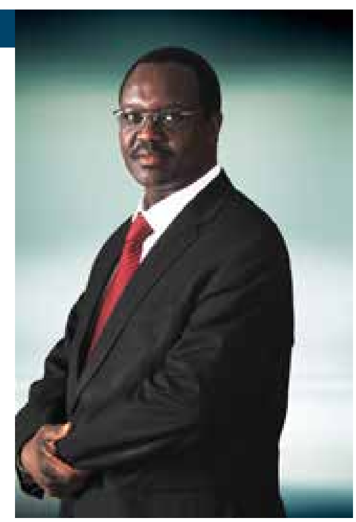
# Subsidiary Directors KCB Bank Uganda Limited Board *(Continued)*



**DR. JEFF SEBUYIRA MUKASA** *DIRECTOR*

He was appointed to the Board of KCB Bank Uganda in the year 2011. He holds a Doctorate in Business Leadership, an MBA and a Bachelor of Commerce Degree. He is also a Fellow of Chartered Institute of Certified Accountants of UK (FCCA). He has held several senior roles in multinational organizations, and this has exposed him to a range of Strategic leadership dynamics.

**PROTUS SIGEI** *DIRECTOR*



He has worked in Kenya's public service for over two decades. He holds a B.A (Hons) degree in Economics (with Mathematics) from the University of Nairobi and a Master of Science from the University of York, U.K. He has served in the KCB Group Board since May 2009 and joined the KCB Bank Uganda Board in February 2013. Currently he chairs the Group Credit Committee, and also the Board Human Resources and Compensation Committee of the KCB Bank Uganda. He was one of the pioneer seven (7) individuals selected by the Government of Kenya in 2004 to be trained, at the Boston Institute for Developing Economies, as trainers in Performance Contracting; subsequent to which he helped introduce and roll out performance contracting in Kenya's public service. He is a member of the Society for Benefit-Cost Analysis, a professional society of academics and practitioners, headquartered at the University of Washington at Seattle, USA.

**ROSE KINUTHIA** *DIRECTOR RISK*

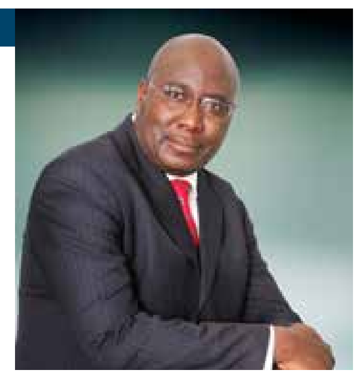
She is the KCB Director Risk, a position she has held since 2007 having joined the Bank in May 2004. Over this period, Rose has expanded the scope of the Bank's Risk Management Framework to cover Enterprise-Wide Risk, and prepared the Bank towards Basel II and Basel III readiness. She holds a Master of Science Degree in Risk Management from New York University's Stern School of Business, an MBA degree in Banking and Financial Markets from Adelphi University in New York and a Bachelor of Arts Degree in Economics and French from the University of Nairobi. She has extensive banking experience and previously worked for Barclays Bank and the First National Bank of Chicago in various capacities. She joined the KCB Bank Uganda Board in 2013 and is also a member of the Board's Risk Management Committee.

# Subsidiary Directors KCB Bank Uganda Limited Board *(Continued)*

**PAUL TIKANI** *DIRECTOR*

He was appointed to the Board of KCB Bank Uganda in the year 2012. He holds a MBA from ESSAMI/ Maastricht and has international experience gained in France, the U.S and South Africa including International Banking, and International Trade Operations. He is an Alumnus of INSEAD Business school Management Acceleration Program. He has been a part of KCB Group since 1986, having worked in KCB Tanzania, and has held various senior positions including Head of Group Services and Head of Operations before his current appointment as the Chief Operating Officer, KCB Group.

**ALBERT ODHIAMBO ODONGO** *MANAGING DIRECTOR*

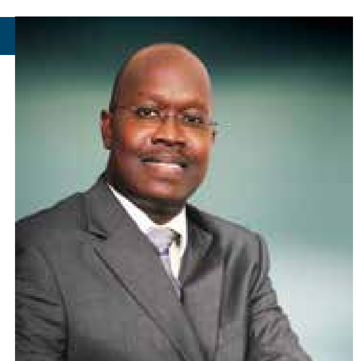


He was appointed to the Board of KCB Bank Uganda in the year 2010. He holds an MBA from ESAMI/Maastricht and a Bachelor of Arts Degree from the University of Nairobi. He is an Alumnus of Oxford University Advanced Management & Leadership Program. He joined the Bank in 1985 as a Graduate Management trainee and has served in various management roles in the KCB Group. He has previously served as the Acting Managing Director for KCB Tanzania Ltd, Head of Group Logistics and Head of International Business Support.

**MARTIN OWINY** *EXECUTIVE DIRECTOR*

He joined the Board in May 2011. He holds a Bachelor of Arts (BA) Degree in Social Sciences specializing in Economics from Makerere University as well as a Master's in Business Administration (MBA) in financial Management from the University of Hull (UK). He is the founding General Manager of Stanbic Investments in Uganda where he served for nine years before joining KCB Bank Uganda Limited. He has also worked in various Corporate and trade Services roles at Standard Chartered Bank Uganda between 1998 and 2002. He has been awarded various investor awards under the Uganda Kikoyongo Capital Markets Awards for his exemplary contribution towards the growth of the Uganda capital.

**PATRICK ANOK** *SECRETARY*



He joined the Bank in January 2010. He holds a Bachelor of Laws Degree (LLB Hons.) from Makerere University, a Post Graduate Diploma in Legal Practice (Dip. LDC) from The Law Development Centre and a Master's in Business Administration (MBA) in Management from Uganda Martyrs University Nkozi. He was previously with Tropical Bank where he served as Manager Legal Services for four years before joining KCB Bank Uganda Limited. He is a member of The Uganda Law Society, East African Law Society and an Advocate of the High Court of Uganda.

# Subsidiary Directors KCB Bank South Sudan Limited Board *(Continued)*

**CHARITY MUYA-NGARUIYA** *CHAIRMAN*

She joined the Board in June 2012. She holds a Bachelor of Commerce Degree and a Masters in Business Administration from the University of Nairobi. She is a Fellow of Certified Accountants (FCCA), Certified Public Secretary (CPS) Chartered Institute of Arbitrators. She holds a Certificate of Advanced course in Investment Banking. She is a trainer in Governance, Member of Institute of Directors, Honorary member of the Institute of Financial Analysts. She is a Management and Financial Restructuring expert having over thirty five years experience in financial management. She has served as a council member of Institute of Certified Public Accountants, a member of the Registration of Accountants Board, member of the Examination Committee of Kenya Accountants and Secretaries National Examination Board. She is the Chairman of the Group Audit Committee and also serves in the Risk, Information Technology and Human Resources Committees and as Chairman of KCB Bank South Sudan Board.

**TOM IPOMAI** *DIRECTOR*

He joined the Board in July, 2013. He is a Corporate Finance specialist. He graduated with a First Class Honours degree in Computer Science at the University of Nairobi. Tom later did postgraduate studies at the University of Cambridge (Jesus College) as a Commonwealth Scholar studying for a Master of Philosophy (MPhil) in Management Studies. Tom eventually wrote his Association of Certified Chartered Accountants (ACCA) examinations completing them in straight passes in two years and all by home study. Tom has previously worked in the Central Bank of Kenya, Barclays Bank in UK, Kenya and Zambia and Deloitte's corporate finance advisory division. Tom currently works as the Chief Executive Officer of Ler Ltd, a real-estate focused Investment Company. He serves as the Chairman of Human Resources and IT Committees. He also sits in the Credit and Procurement Committees.

**PROFESSOR FESTUS ABDULEZIZ JAMES** *DIRECTOR*

He joined the Board in September 2011. He has over 15 years experience in International Academic Health Planning, Health System Research, Management and Policy as well as Business Administration with various International agencies in different countries at different levels. He shares his time between teaching, consulting, researching, writing and strategy. He is currently the Assistant Professor of Epidemiology in the faculty of medicine at University of Juba, South Sudan and also an Advisor to Juba City Municipality on development issues.

# Subsidiary Directors KCB Bank South Sudan Limited Board *(Continued)*

**YAR MANOA MAJOK** *DIRECTOR*

She joined KCB Bank South Sudan in September 2008. She holds a Bachelors Degree in Business Administration from Cairo University. She is currently the Managing Director of Sudan Business Link Limited. She has previously worked as a Money Management Trainer, fundraiser, Interpreter/ Translator-Arabic/English/Dinka.

**MOU AMBROSE THIIK** *DIRECTOR*

He joined KCB Bank South Sudan in July 2009. He holds a Bachelor of Science degree in Economics from Christian Albrechts, Germany and a Bachelor of Arts degree in Comparative Literature (Arabic and English) at Ain Shams University in Cairo, Egypt. He served as the Honorary Consul General for the Republic of Turkey and currently he is the programme Manager for Friedrich- Ebert- Foundation. He is also an Independent Business Development Consultant with affiliation to the IFC – World Bank Business Edge project and owns a training facility at the Nyakuron cultural centre.

**COLLINS OTIWU** *GROUP CHIEF FINANCIAL OFFICER*

He was appointed as the KCB Group Chief Financial Officer in June, 2013. He holds a Masters of Business Administration (MBA) degree in Finance from the University of Warwick (Warwick Business School), United Kingdom, Bachelor of Commerce Degree, Accounting option from the University of Nairobi, Kenya. He is a Certified Public Accountant, CPA(K) and a Certified Information Systems Auditor (CISA). He is a Board member of the Group and also sits on the KCB Bank South Sudan Board where he chairs the Risk and Strategy committees and also sits in the Audit committee. Prior to joining the KCB Group, he worked at Equity Bank as Finance Director, British Telecom (BT) in London as Group Head of Finance & Treasury and British Petroleum (BP) in London as Senior Manager, Policy. He also worked at HSBC in London as Manager, Policy and at PricewaterhouseCoopers (PwC) both in London and Nairobi.

# Subsidiary Directors KCB Bank South Sudan Limited Board *(Continued)*

## HARUN KIBOGONG *MANAGING DIRECTOR*

Harun Kibogong was appointed the Managing Director of KCB Bank South Sudan in August 2013.He holds a Bachelor in Arts from University of Nairobi, has also attended many Professional Courses among them Project Management Course, Leadership Development. He has served in various management positions in KCB since joining the Bank as a Management Trainee more than 27 years ago. Prior to his appointment as the Managing Director of KCB Bank South Sudan, he served as the Regional Business Manager Western, he served as a Manager in different Branches, National Retail Manager, Business Development Manager – CEO Office, (Responsible for establishing KCB Bank South Sudan) Area Director Eastern, among many other managerial position, Head of Operation Excellence, KCB Kenya among others.

## REBECCA LIKAMI *DEPUTY MANAGING DIRECTOR*

She was appointed Deputy Managing Director of KCB Bank South Sudan in October 2011. She has served in various management positions in KCB since joining the Bank as a Management Trainee more than 23 years ago. Prior to her appointment, she worked in Corporate Banking Head office as Head Institutional Banking, Cash Management and Corporate Service. She holds a Bachelor of Arts Degree from the University of Nairobi and a Masters of Business Administration from ESAMI and Maastricht School of Management.

## JOSEPH KANIA *COMPANY SECRETARY*

He joined the Bank with over 20 years experience as an advocate of the High Court and 10 years experience as a Company Secretary. He joins the Bank from Housing Finance Company of Kenya where he was the Company Secretary. Other roles previously held include: - Senior Legal Officer at Industrial and Commercial Development Corporation and Legal Officer at Senator Cards/ Southern Credit Corporation. He holds an LLB from University of Nairobi and is an advocate of the High Court of Kenya.  He is a Notary Public, Commissioner of Oaths as well as a CPS (K) Certified Public Secretary of Kenya.

## Subsidiary Directors KCB Bank Rwanda Limited Board *(Continued)*

### PROFESSOR PETER KIKO KIMUYU *CHAIRMAN*

He joined the KCB Rwanda Board in 2009 as a Director and became Chairman of the Board in June 2011. He holds a Bachelor's degree (Hons) in Economics and Mathematics and a Masters of Economics from the University of Nairobi. He also holds a Master's of Science in Energy Economics from the University of Surrey, England and a Ph. D in Economics from the University of Nairobi. He has held various positions in the Economics Department at the University of Nairobi and in other institutions amongst them IPAR, KIPPRA, IDS and conducted several researches and consultancies. He received a Presidential decoration as Moran of the Order of Burning Spear in 2004 amongst his other recognitions and awards. He published various books, journal articles and working papers. Prof. Kimuyu is currently the Director, School of Economics at the University of Nairobi.

### ANNE WANGARI KIRIMA *DIRECTOR*

She joined the KCB Rwanda Board in October 2009. She holds a Bachelor's of Arts (Hons) Degree in Politics and Economics from the University of London and a Masters in Business Administration from Brunel University, London as well as a Master's of Science Degree in Commercial Property Management from Liverpool John Moores University. She is an Associate of the Royal Institution of Chartered Surveyors. In addition, she qualified at graduate level in International Development Studies and in Political Economy of Developing Countries with special emphasis on East Africa. She has over 15 years experience in Property Consultancy in East Africa and in the UK.

### FAUSTIN KANANURA MBUNDU *DIRECTOR*

He joined the Board in October 2009. He holds a Bachelor of Commerce Degree (Honors) from Makerere University. He has a lot of entrepreneurial experience having started and run several companies in East Africa. Currently, he runs and holds equity in a number of companies involved in different businesses ranging from Information Technology, Tourism, Agri-business and Education.

# Subsidiary Directors KCB Bank Rwanda Limited Board *(Continued)*

## DANIEL ZITUNGA *DIRECTOR*

He joined the Board in December 2011. He holds a Bachelor of Commerce Degree (B.Com) (Honours) from Makerere University, Uganda and a Master of Business Administration (MBA) with distinction awarded by the University of Leicester, UK. He qualified as a Certified Public Accountant (CPAK) in 1991 in Kenya. He is a member of the Institutes of Certified Public Accountants in Uganda and Rwanda. He is the Lead Partner of ZiMpartners; a firm of Certified Public Accountants & Management Consultants established in Kigali, and brings on board 27 years professional experience spanning a broad spectrum of business sectors including commercial banks, telecommunications, international hotels, manufacturing, agriculture, hydroelectric power generation, civil engineering, general trading and donor-funded public sector projects. He was the Chief Financial Officer at MTN Rwanda for four years to 2004, and previously was audit manager at PriceWaterhouseCoopers and KPMG respectively. He lectures (visiting tutor) Corporate Governance course to students preparing for Masters of Science in Accounting at the National University of Rwanda.

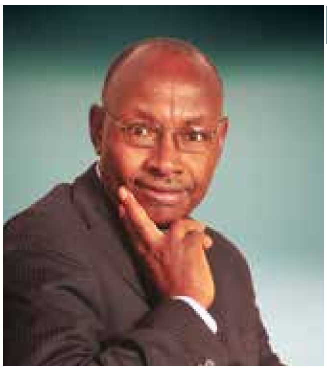
## SARAH MUKANDUTIYE *DIRECTOR*

She joined the Board in November 2009. She is a holder of a Master of Arts (Econ) Degree in Development Administration and Management from the University of Manchester, UK and a Bachelors of Arts Degree in Social Administration from Makerere University. She has over 19 Years of practical experience in financial management, operations and administration. She is the Managing Director of SEROMA Ltd, a private limited liability company that deals with building materials.

## SPÉCIOSE AYINKAMIYE *DIRECTOR*

She joined the Board in May 2012. She holds a Bachelor of Economic Sciences Degree from the National University of Rwanda and a Post-graduate Diploma in Banking Technology from the Institut Technique de Banque in Paris, France. She has 9 years working experience in senior banking positions as well as extensive training in the field. She served as a Senator in the Rwandan Parliament, Senate Chamber and as a Board Member of many esteemed organizations. She is currently consulting with Restrad Consultancy Ltd.

# Subsidiary Directors KCB Bank Rwanda Limited Board *(Continued)*



**JOSHUA MUIRU** *DIRECTOR*

He joined the Board in October 2012 having previously served at different times in the Boards of KCB Tanzania Ltd and Savings & Loan Ltd since 2006. He holds a Bachelor's degree in Economics and a Master of Arts in Economics from the University of Nairobi. He has long standing experience at Central Bank of Kenya (CBK) having worked for over 23 years. He is a Consultant with Peter Githae & Associates and is currently an examiner at the Kenya Institute of Bankers.

**MOLLY RWIGAMBA** *DIRECTOR*

She joined the Board in April 2013. She holds a Bachelor's degree in Law from the National University of Rwanda and a Masters in International and Comparative law from Uppsala University in Sweden. She has 14 years of experience in various capacities as a legal and private sector expert and has served as the Private Sector Federation CEO (Ag). She is the vice-chair of the Capital Markets Authority and serves on the boards of the Work Force Development Authority, National labor Council and Education Endowment Fund. She is currently a Partner and Consultant at RR Associates & Co Advocates.

**MAURICE K TOROITICH** *MANAGING DIRECTOR*

He joined the Board in October 2008. He holds a Bachelor's Degree in Commerce (Accounting Option) from the University of Nairobi and a Master in Business Administration from Strathmore Business School. He is a Certified Public Account of Kenya (CPAK) and an Associate of the Chartered Institute of Bankers (ACIB), London. He is a career banker with long standing experience in Retail and Corporate Banking. He previously worked for CfC Stanbic Bank Ltd.

**MARY OGANGA** *SECRETARY*

She joined the Bank in 1993 and is currently working in the Legal Department as a Legal Manager. She holds a Bachelor of Laws (LLB) Degree and Masters in Law in Public International Law (LLM), all from the University of Nairobi. She was appointed as the Secretary to the KCB Bank Rwanda Board in 2013. She is an Advocate of the High Court of Kenya, Commissioner for Oaths and a Notary Public. She is a member of the Law Society of Kenya and East African Law Society and an Alumni of International Law Development Organization (IDLO).

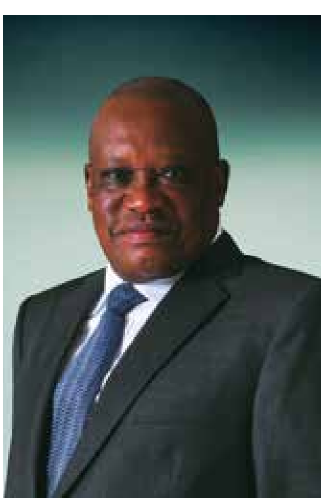
# Subsidiary Directors KCB Bank Burundi Limited Board *(Continued)*

**CATHERINE KOLA** *CHAIRMAN*

She joined the KCB Group Board in May 2009 and appointed to the KCB Bank Burundi Board in the year 2012. She has over 30 years experience covering Legal Practice, Development Banking, company secretarial and administration in the Financial and Energy Sectors. She has also served as the Chief Executive Officer of the Constitutional Commission. She is an advocate of the High Court of Kenya, Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institutes of Arbitrators. She holds a Bachelor of Laws (LL.B) Honors Degree from the University of Nairobi and is the Chairman of the Staff Retirement Benefits (Defined Contribution) Scheme (2006). She also serves as the Chairman of the KCB Foundation Board and Credit Committee and sits on the Board of KCB Bank Burundi. She is a member of the Risk and Strategy Committees.

**CONSOLATA NDAYISHIMIYE** *DIRECTOR*

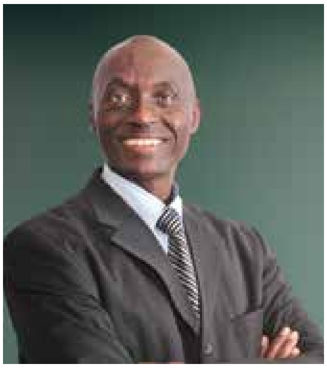
She joined the Board in October 2012. She is a member of several boards among them the Burundi Peace Building Steering Committee, The Burundi Doing Business Steering Committee, and The Burundi Investment Promotion Agency. She is a champion for women development and has been feted in Burundi for her support to small and medium women entrepreneurs and for the formation of the Association of Women Entrepreneurs in Burundi (AFAB). Currently she is the Chairperson of the East African Business Council and elected Board member of Inter-Café Burundi. She was the Chair of the Burundi Federal Chamber of Commerce and Industry. She also serves as the Chairman of the Credit Committee and sits in the Human Resources Committee for KCB Bank Burundi.



**Gen. (Rtd) JOSEPH R. KIBWANA, EGH, CBS** *DIRECTOR*

He joined the Board in June 2012. He is the Chairman of the Strategy Committee and a Member of the Audit and Procurement Committees. He is also a Director of KCB Bank Burundi. An Alumni of the Britannia Royal Naval College, the US Naval Staff College and the US Naval War College, he retired from the Kenya Armed Forces in 2005 having served as the Chief of the General Staff (2000-2005), the Commandant of the National Defense College (1998-2000) and the Commander of the Kenya Navy (1988-1998). Upon his retirement from active duty, he was appointed Chairman of the Board of Directors of the Kenya Ports Authority (2005-2008). He is currently the Chairman of the Board of Directors of Kenya Trade Network Agency.

# Subsidiary Directors KCB Bank Burundi Limited Board *(Continued)*



**ADRIEN SIBOMANA** *DIRECTOR*

He joined the Board in November 2012.He is a Graduate in Mathematics-Physics from the University of Burundi, Masters in Business Administration (MBA) from Light University and a Diploma certificate holder in Management of SMEs from Galilee International Management Institute (IMCI). Adrien was the Prime Minister and Vice President of the National Assembly of Burundi between the years 1982 and 1993, where he worked towards restoration of National Unity. Prior to his appointment as Prime Minister, he was the Governor of Muramvya Province. He was Member of Parliament from 1993 to 2005. He currently serves as the Economic operator and President of Burundi Coffee Inter-professional (INTERCAFE-Burundi), Chairman of the IDEC (Economic Development Institute of Burundi) and President of BOAM (Burundi Organic Agricultural Movement). He Chairs the Human Resources Committee and sits in the Credit, Audit and Risk Committees at KCB Bank Burundi.

**JAMES AGIN** *DIRECTOR*

James is a career banker with over 20 years experience having joined KCB Group in January 2008 as Managing Director, KCB Bank Uganda Ltd. He is currently the Director - Corporate Banking prior to which he was the Chief Business Officer - International. 5James holds a BSc Degree from University of Nairobi, an MBA from IESE Business School, Spain and is an alumni of the Havard Business School's Advanced Management Program. He is also an associate of the Chartered Institute of Bankers, UK. His earlier banking career was with Barclays Bank where he was last the Corporate Director in Uganda.

**GLORIA NYAMBOK** *MANAGING DIRECTOR*

She joined the Bank as a Trainee Manager and has held various positions within Savings & Loan, Nairobi Regional Office, KCB Bank Tanzania and KCB Bank Rwanda. Prior to her appointment, Gloria was the Head of Retail in KCB Bank Rwanda. She holds a Bachelor of Arts Degree in Economics & Sociology and a Masters in Business Administration from the University of Nairobi. She also currently chairs the Board of International Leadership University of Burundi In addition, she is fluent in spoken and written French, which is the official language in Burundi.

**VICTORIA C. SABULA** *SECRETARY*

She joined the Bank in February 2005 as a Legal Manager, Savings and Loan then a subsidiary of the Bank. She is currently the Senior Manager, Securities and Documentation Centre. She holds a Bachelor of Law (LL.B) Degree from Moi University and a Diploma in Law from Kenya School of Law. She is an Advocate of the High Court of Kenya and an Associate Member of the Chartered Institute of Arbitrators. She is presently pursuing a Masters in Business Administration (Strategic Management) from Nazarene University."

# Subsidiary Directors KCB Foundation Board

**CATHERINE KOLA** *CHAIRMAN*

She joined the Board in May 2009. She has over 30 years experience covering Legal Practice, Development Banking, company secretarial and administration in the Financial and Energy Sectors. She has also served as the Chief Executive Officer of the Constitutional Commission. She is an advocate of the High Court of Kenya, Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institutes of Arbitrators. She holds a Bachelor of Laws (LL.B) Honors Degree from the University of Nairobi and is the Chairman of the Staff Retirement Benefits (Defined Contribution) Scheme (2006). She also serves as the Chairman of the KCB Foundation Board and Credit Committee and sits on the Board of KCB Bank Burundi. She is a member of the Risk and Strategy Committees.

**PROTUS SIGEI** *TRUSTEE*

Protus Sigei has worked in Kenya's public service for over two decades. He holds a B.A (Hons) degree in Economics (with Mathematics) from the University of Nairobi and a Master of Science from the University of York, U.K. He has served in the KCB Group Board since May 2009 and joined the KCB Bank Uganda Board in February 2013. Currently he chairs the Group Credit Committee, and also the Board Human Resources and Compensation Committee of the KCB Bank Uganda. He was one of the pioneer seven (7) individuals selected by the Government of Kenya in 2004 to be trained, at the Boston Institute for Developing Economies, as trainers in Performance Contracting; subsequent to which he helped introduce and roll out performance contracting in Kenya's public service. He is a member of the Society for Benefit-Cost Analysis, a professional society of academics and practitioners, headquartered at the University of Washington at Seattle, USA.

**GRACE A. AKUMU** *TRUSTEE*

She joined the Board in June, 2009. She has a Bachelor of Arts Degree in International Relations and a diploma in French from Switzerland. She is the Executive Director of Climate Network Africa, in Kenya, since 1992. She is actively involved in climate change and sustainable development issues at the national and international levels. She has been nominated twice as a Lead Author of the Intergovernmental Panel on Climate Change. She is a Technical Advisor to Kenya Government on Climate Change and was recently appointed a Board Member of the National Environment Council. She has served in various capacities in the public sector and non-governmental organizations. She has previously served as the National Chairman, Governing Council, NEPAD-African Peer Review Mechanism Kenya, World Bank Consultant on Carbon Fund and Project Manager for Kenya Women Literature Group.

## Subsidiary Directors KCB Foundation Board *(Continued)*

### JOSHUA OIGARA *TRUSTEE*

He was appointed as the KCB Group CEO on January, 2013. He previously served as the Chief Financial Officer of the Bank prior to his appointment. He holds a Masters in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia (2011), Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi, Kenya (1997), Advanced Management Program Graduate from INSEAD, Fontainebleau, France (2010). He is also a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA (2006) as well as a Certified Public Accountant of Kenya, CPA (K), School of Accountancy, Strathmore University, Kenya (1997). He is a Board member in KCB Bank Tanzania Board and sits in the Risk, Credit, Human Resources, Procurement, Transformation, Strategy and Information Technology committees.

### CATHERINE N. KIMURA *TRUSTEE*

She joined the Board in June 2003 (Representing Permanent Secretary Treasury). She holds a Bachelor of Arts Degree (Hon) from University of East Africa (Nairobi), a Diploma in Tourism and International Relations, a Certificate in Public Finance (University of Connecticut) and a Certificate in Budgeting (Havard). She has served in senior positions in Government rising to the position of Investment Secretary, Ministry of Finance.

### ANGELA MWIRIGI *TRUSTEE*

She was appointed the KCB Divisional Director Marketing & Communications in October, 2011. Prior to her appointment she worked at East African Breweries Limited (EABL), where she served as a Regional Marketing Manager –Partner Brands. She holds a Masters of Arts Degree in Strategy from United States International University (USIU) and a Bachelor of Commerce (Marketing) Degree from the University of Nairobi. She also has a post graduate PMD qualification from Strathmore Business School.

### ANNE NYONGESA MWANGI *SECRETARY*

She joined the Bank in 2007 and is currently working in the Securities and Documentation Centre Department as a Legal Documentation Manager. She holds a Bachelor of Laws (LLB) Degree from the University of Nairobi, Post Graduated diploma in business Management from Kenya Institute of Management, Post Graduate Diploma in banking from Kenya Institute of Bankers, Certified Public Secretary and finalizing LLM in Corporate Governance from the University of South Africa. She was appointed as the Secretary to the KCB Foundation Board in 2014. She is an Advocate of the High Court of Kenya, Commissioner for Oaths, a Notary Public and an Associate to the Chartered Institute of Arbitrators (Kenya Chapter) and Associate Kenya Institute of Bankers. She is a member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya, and Kenya institute of Bankers.

# Executive Committee

**From Top Left**
Charles Maranga – Director Human Resources, Charles Karuga – Ag. Chief Information Officer, Charles Langat – Director Audit, Collins Otiwu – Chief Financial Officer, Joseph Kania – Company Secretary
Paul Tikani – Chief Operating Officer

**From Bottom Left**
Samuel Makome – Chief Business Officer & MD Kenya, Judith Sidi Odhiambo – Head of Corporate and Regulatory Affairs, Joshua Oigara – Chief Executive Officer, Rose Kinuthia – Director Risk, Apollo Ongara – Director Credit

# Executive Committee

**JOSHUA OIGARA** *CHIEF EXECUTIVE OFFICER*

He was appointed as the KCB Group CEO on January, 2013. He previously served as the Chief Financial Officer of the Bank prior to his appointment. He holds a Masters in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia (2011), Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi, Kenya (1997), Advanced Management Program Graduate from INSEAD, Fontainebleau, France (2010). He is also a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA (2006) as well as a Certified Public Accountant of Kenya, CPA (K), School of Accountancy, Strathmore University, Kenya (1997). He is a Board member in KCB Bank Tanzania Board and sits in the Risk, Credit, Human Resources, Procurement, Transformation, Strategy and Information Technology committees.

**COLLINS OTIWU** *GROUP CHIEF FINANCIAL OFFICER*

He was appointed as the KCB Group Chief Financial Officer in June, 2013. He holds a Masters of Business Administration (MBA) degree in Finance from the University of Warwick (Warwick Business School), United Kingdom, Bachelor of Commerce Degree, Accounting option from the University of Nairobi, Kenya. He is a Certified Public Accountant, CPA(K) and a Certified Information Systems Auditor (CISA). He is a Board member of the Group and also sits on the KCB Bank South Sudan Board where he chairs the Risk and Strategy committees and also sits in the Audit committee. Prior to joining the KCB Group, he worked at Equity Bank as Finance Director, British Telecom (BT) in London as Group Head of Finance & Treasury and British Petroleum (BP) in London as Senior Manager, Policy. He also worked at HSBC in London as Manager, Policy and at PricewaterhouseCoopers (PwC) both in London and Nairobi.

**JOSEPH KANIA** *COMPANY SECRETARY*

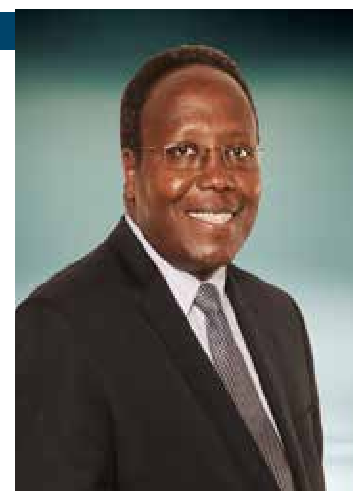
He joined the Bank in July 2013 as Company Secretary. He has over 20 years' experience as an advocate of the High Court and 10 years' experience as a Company Secretary. He joined the Bank from Housing Finance Company of Kenya where he was the Company Secretary. Other roles previously held include:- Senior Legal Officer at Industrial and Commercial and Commercial Development Corporation and Legal Officer at Senator Cards/Southern Credit Corporation.He holds an LLB from University of Nairobi and is an advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a CPS (K) Certified Public Secretary of Kenya.

# Executive Committee *(Continued)*

**SAMUEL MAKOME** *CHIEF BUSINESS OFFICER, KENYA*

He joined the Bank in 2013 as Chief Business Officer, Kenya. He has over 20 years' experience in Banking Institutions and 10 years in executive management in strategic leadership and business development. Prior to joining KCB he was the Managing Director, Equity Bank Tanzania. Other previously held roles include: General Manager, Equity Bank Limited; Executive Director, Bank of Africa (BOA), Uganda and Regional Head, Consumer Banking Operations for Africa, Standard Chartered Bank. He holds a Masters in Organizational Leadership from the International Leadership University, Nairobi, Kenya a BSC in Engineering from the University of Nairobi and is an Associate of the Chartered Institute of Bankers, UK (ACIB).

**PAUL TIKANI** *CHIEF OPERATING OFFICER*



He was appointed to the Board of KCB Bank Uganda in the year 2012. He holds a MBA from ESSAMI/ Maastricht and has international experience gained in France, the U.S and South Africa including International Banking, and International Trade Operations. He is an Alumnus of INSEAD Business school Management Acceleration Program. He has been a part of KCB Group since 1986, having worked in KCB Tanzania, and has held various senior positions including Head of Group Services and Head of Operations before his current appointment as the Chief Operating Officer, KCB Group.

* He has now transitioned out of the Bank at the end of March 2014

**ROSE KINUTHIA** *DIRECTOR RISK*

She is the KCB Director Risk, a position she has held since 2007 having joined the Bank in May 2004. Over this period, Rose has expanded the scope of the Bank's Risk Management Framework to cover Enterprise-Wide Risk, and prepared the Bank towards Basel II and Basel III readiness. She holds a Master of Science Degree in Risk Management from New York University's Stern School of Business, an MBA degree in Banking and Financial Markets from Adelphi University in New York and a Bachelor of Arts Degree in Economics and French from the University of Nairobi. She has extensive banking experience and previously worked for Barclays Bank and the First National Bank of Chicago in various capacities. She joined the KCB Bank Uganda Board in 2013 and is also a member of the Board's Risk Management Committee.

# Executive Committee *(Continued)*

**CHARLES MARANGA** *DIRECTOR HUMAN RESOURCES*

He joined the bank in June 2008. He holds a Bachelor of Arts Degree from the University of Nairobi and a Master's of Science Degree in Business Studies from Salford UK. He has over 20 years' experience in senior leadership positions in Human Resources management. He has previously worked for Kenya Airways, as Head of Human Resources, Barclays Bank as Regional Head of Human Resources (E.Africa) and the Central Bank of Kenya as Director Human Resources and Administration. He is also a member of KIB and Chartered Institute of Personnel Management (CIPD)-UK

**APOLLO ONG'ARA** *DIRECTOR CREDIT*

He joined the bank in 2012 as the Head of Credit in Tanzania and is currently serving as the Director of Credit for the KCB Group based in Kenya. He is a graduate of Economics and Business Studies from Kenyatta University Nairobi 1991, and Associate Chartered Institute of Bankers [ACIB] London. He started his career as management trainee Barclays Bank Kenya, and has played Relationship Management, Credit and Risk Management roles in ABN AMRO Bank N.V. Kenya, Citigroup N.A. Kenya, Commercial Bank of Africa Kenya, Barclays Bank Ghana and Family Bank Kenya.

**CHARLES K. LANG'AT** *DIRECTOR AUDIT*

He joined the Bank in 2013 as Director, Audit. He has over 10 years' experience in senior Management roles in Audit and Finance. He joined KCB from Sovereign Group Limited where he held the roles of Divisional Director and Chief Finance and Investment Officer. Other roles held previously include:-Financial Controller, BOC Kenya and Group Internal Audit Manager, Bamburi Cement Limited. He holds an MBA in Finance from Herriott Watt University –Edinburgh Business School, Scotland and a Bachelor of Commerce Degree from University of Nairobi. He is a Certified Public Accountant of Kenya, Certified Internal Auditor as well as a Certified Information Systems Auditor.

**CHARLES KARUGA** *AG. CHIEF INFORMATION TECHNOLOGY OFFICER*

He has over 13 years of experience in senior management positions at KCB Information Technology division. He was the Technical Lead during the T24 core banking system implementation in 2008 and the Initiative Leader of IT Quality and Reliability transformation during the McKinsey led Transformation project.
Prior to joining KCB, he worked at Kenya Electricity Generating Company as Manager, IT Systems Administration and Kenya Power and Lighting Company Ltd as a Systems Developer. He holds Masters of Business Administration in Finance from University of Nairobi and a Bachelor of Science in Mathematics and Computer Science from Jomo Kenyatta University of Agriculture and Technology. He is a Certified Unix Systems and Network Administrator and a Certified ActivIdentity Security Professional

**JUDITH SIDI ODHIAMBO** *HEAD OF CORPORATE & REGULATORY AFFAIRS*

She joined the Bank in 2006 as a Corporate Communications Manager and rose to the position of Ag. Director Corporate and Regulatory Affairs. She has over 20 years experience in strategic public relations, advertising, corporate communication, stakeholder engagement, brand communications, public affairs and sustainability from various organizations. She holds an MA in International Relations from United States International University (USIU) and a BA in Communications from Daystar University. In addition, she holds a Diploma in Journalism from the Kenya Institute of Mass Communication and has attended several professional courses in strategic management, leadership and business planning.

# Directors and Statutory Information

## Directors

| | | |
|---|---|---|
| Mr. Ngeny Biwott | - | Chairman (with effect from 5 August 2013) |
| Eng. Jeremiah M. Ndeto | - | Chairman (retired as Chairman on 5 August 2013) |
| Mr. Joshua N. Oigara | - | Chief Executive Officer |
| Mr. Henry K. Rotich | | |
| Prof. Peter K. Kimuyu | | |
| Mrs. Catherine Kola | | |
| Mrs. Charity M. Muya-Ngaruiya | | |
| Mr. Adil .A. Khawaja | | |
| Gen. (Rtd) Joseph .R.E.Kibwana | | |
| Mr. Joseph I. Adongo | - | Retired 26 March 2013 |
| Mr. Tom D. Ipomai | - | Appointed 8 July 2013 |
| Mr. Collins O. Otiwu | - | Group Chief Financial Officer (with effect from 25 September 2013) |

## Company Secretary

Mr. Joseph Kania - Appointed 21 June 2013
PO Box 48400 - 00100
Nairobi, Kenya

Mr David Malakwen - Resigned 20 June 2013

## Auditors

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612- 00100
Nairobi, Kenya

## Registered Offices And Principal Places Of Business

### Kenya Commercial Bank Limited

Kencom House
Moi Avenue
PO Box 48400- 00100
Nairobi, Kenya

### KCB Bank Tanzania Limited

Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
PO Box 804
Dar es Salaam, Tanzania

### KCB Bank South Sudan Limited

KCB Plaza
Ministry Road
PO Box 47
Juba, Southern Sudan

### KCB Bank Uganda Limited

Commercial Plaza
7 Kampala Road
PO Box 7399
Kampala, Uganda

### KCB Bank Rwanda Limited

Avenue de la Paix
P.O Box 5620
Kigali, Rwanda

### KCB Bank Burundi Limited

Boulevard Patrice Lumumba
P.O Box 6119
Bujumbura, Burundi

## Solicitors

Various. A list is available at the Bank

# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which disclose the state of affairs of Kenya Commercial Bank Limited (the “Bank”) and its subsidiaries (collectively referred to as the “Group”).

## 1. Principal activities

The Bank continues to offer corporate and retail banking services. The activities of the subsidiary companies are those set out in note 31 to the financial statements.

## 2. Results

The results of the Group and the Bank are set out on pages 86 and 88 respectively.

## 3. Dividend

The Directors recommend the payment of a dividend of KShs 5,968,445,000 which represents KShs 2.00 per share in respect of the year ended 31 December 2013 (2012 - KShs 5,643,646,676 representing KShs 1.90 per share).

## 4. Directors

The Directors who served during the year and up to the date of this report are set out on page 78.

All Directors are non-executive other than the Chief Executive Officer and the Group Chief Financial Officer.

## 5. Reserves

The reserves of the Group and Bank are set out on pages 92 to 95 respectively and Note 40 to these financial statements.

## 6. Auditors

The Auditors of the Bank, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

COMPANY SECRETARY

Date: 26th February 2014

# Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 86 to 172 which comprise the consolidated and separate statements of financial position at 31 December 2013, consolidated and separate income statements and consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of the Group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank and its subsidiaries' ability to continue as a going concern and have no reason to believe the Bank and its subsidiaries will not be a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The financial statements, as indicated above, were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

| | |
|---|---|
| ______________________________ | ______________________________ |
| Chairman | Chief Executive Officer |
| ______________________________ | ______________________________ |
| Director | Company Secretary |

# Report of the Independent Auditors

## To The Members of Kenya Commercial Bank Limited

**KPMG Kenya**
**Certified Public Accountants**
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612, 00100 GPO
Nairobi, Kenya

Tel: +254 20 2806000
Cell: +254 709 576101
Fax: +254 20 2215695
Website: www.kpmg.com/eastafrica

### Report on the financial statements

We have audited the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 86 to 172 which comprise the consolidated and separate statements of financial position at 31 December 2013, and consolidated and separate income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the financial statements

As stated on page 80, the Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Kenya, and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of Kenya Commercial Bank Limited at 31 December 2013, and the consolidated and separate financial performance and the consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act.

# Report of the Independent Auditors

## To The Members of Kenya Commercial Bank Limited

**KPMG Kenya**
**Certified Public Accountants**
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612, 00100 GPO
Nairobi, Kenya

Tel: +254 20 2806000
Cell: +254 709 576101
Fax: +254 20 2215695
Website: www.kpmg.com/eastafrica

**Report on other legal requirements**

The Kenyan Companies Act requires us to expressly report to you, based on our audit, that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

(iii) The Bank's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA Eric Etale Aholi - P/1471.

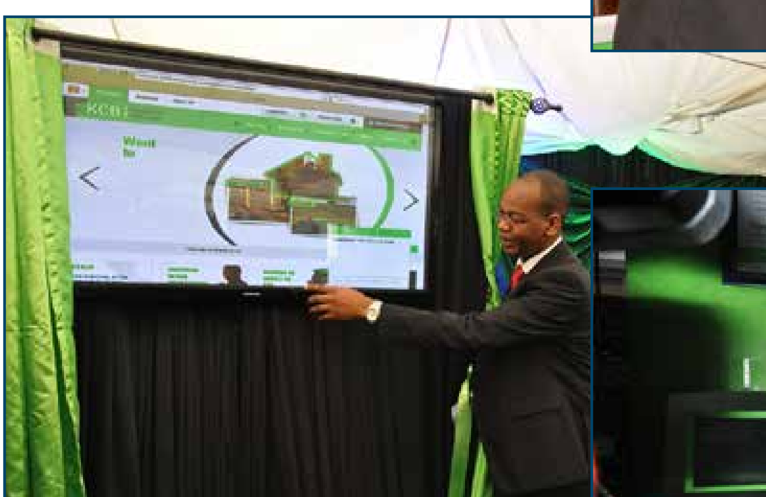
KPMG Kenya

Date: 26 February 2014

# Innovation Initiatives


From left, KCB Group CEO, Joshua Oigara and Safaricom CEO, Bob Collymore during the KCB M-Benki launch.


Samuel Makome awarding the winner of the raffel ticket for airline tickets and a Kenya Airways plane model to  the CEO of Gensler Mr. Gary Davis during the East Africa chamber of commerce event in Dallas, TX U.S.A.



KCB Group CEO Joshua Oigara unveils the new look website during a media briefing at KENCOM House.

KCB Chief Business Officer and MD Kenya, Samuel Makome during the launch of the Queue Management System at Moi Avenue Branch. The system is aimed at easing customer queues experienced at the banking halls.

# Content

# Consolidated Income Statement

**For the year ended 31 December 2013**

| | Note | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|---|
| Interest income | 9 | 41,613,399 | 43,082,218 |
| Interest expense | 9 | (8,629,113) | (12,445,986) |
| Net interest income | | 32,984,286 | 30,636,232 |
| Fees and commission income | 10 | 10,500,837 | 9,612,985 |
| Fees and commission expense | 10 | (568,089) | (539,173) |
| Net fees and commission income | | 9,932,748 | 9,073,812 |
| Foreign exchange gain | 11 | 3,942,186 | 3,688,137 |
| Dividend income | 12 | 12,009 | 13,709 |
| Other operating income | 13 | 991,249 | 647,448 |
| Operating income | | 47,862,478 | 44,059,338 |
| Net impairment on financial assets | 14 | (995,643) | ( 2,098,035) |
| Personnel costs | 15 | (13,469,900) | (11,861,196) |
| Depreciation and amortization | 16 | (2,679,320) | (2,295,059) |
| Other operating expenses | 17 | (10,593,856) | (10,596,905) |
| Profit before tax | | 20,123,759 | 17,208,143 |
| Income tax expense | 18(a) | (5,782,377) | (5,004,612) |
| Profit for the year | | 14,341,382 | 12,203,531 |
| Attributable to: | | | |
| Owners of the parent | | 14,341,382 | 12,203,531 |
| Basic and diluted earnings per share (KShs.) | 19 | 4.82 | 4.11 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

**For the year ended 31 December 2013**

| | Note | 2013<br>KShs.'000 | 2012 Restated<br>KShs.'000 |
|---|---|---|---|
| Profit for the year | | 14,341,382 | 12,203,531 |
| Other comprehensive income | | | |
| *Items that will never be reclassified to profit or loss* | | | |
| Re-measurement of defined benefit pension fund | 45 | 727,000 | 1,191,000 |
| Related tax at 30% | | (218,100) | ( 357,300) |
| | | 508,900 | 833,700 |
| Items that are or may be classified to profit or loss | | | |
| *Exchange differences on translation of foreign operations* | | (736,114) | 97,273 |
| Available for sale financial assets: | | | |
| Unrealized (loss)/gain arising from | | | |
| measurement at fair value | | (78,581) | 1,898,331 |
| Other comprehensive income for the year, net of taxes | | (305,795) | 2,829,304 |
| Total comprehensive income for the year | | 14,035,587 | 15,032,835 |
| Attributable to: | | | |
| Owners of parent | | 14,035,587 | 15,032,835 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Income Statement of the Bank

**For the year ended 31 December 2013**

| | Note | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|---|
| Interest income | 9 | 36,089,074 | 38,898,300 |
| Interest expense | 9 | (7,088,483) | (11,104,140) |
| Net interest income | | 29,000,591 | 27,794,160 |
| Fees and commission income | 10 | 7,181,783 | 6,804,493 |
| Fees and commission expense | 10 | (553,565) | (524,460) |
| Net fees and commission income | | 6,628,218 | 6,280,033 |
| Foreign exchange gain | 11 | 1,684,575 | 1,681,984 |
| Dividend income | 12 | 12,009 | 13,709 |
| Other operating income | 13 | 882,512 | 637,658 |
| Operating income | | 38,207,905 | 36,407,544 |
| Net impairment on financial assets | 14 | (247,237) | (1,610,710) |
| Personnel costs | 15 | (11,077,167) | (9,781,045) |
| Depreciation and amortization | 16 | (1,833,873) | (1,777,457) |
| Other operating expenses | 17 | (7,303,437) | (7,482,441) |
| Profit before tax | | 17,746,191 | 15,755,891 |
| Income tax expense | 18(a) | (5,319,517) | (4,666,052) |
| Profit for the year | | 12,426,674 | 11,089,839 |
| Attributable to: | | | |
| Owners of the parent | | 12,426,674 | 11,089,839 |
| Basic and diluted earnings per share (KShs) | 19 | 4.18 | 3.74 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Statement of Comprehensive Income of the Bank

For the year ended 31 December 2013

| | Note | 2013<br>KShs.'000 | 2012<br>Restated<br>KShs.'000 |
|---|---|---|---|
| Profit for the year | | 12,426,674 | 11,089,839 |
| Other comprehensive income | | | |
| *Items that will never be reclassified to profit or loss* | | | |
| Re-measurement of defined benefit pension fund | 45 | 727,000 | 1,191,000 |
| Related tax at 30% | | (218,100) | (357,300) |
| | | 508,900 | 833,700 |
| Items that are or may be classified to profit or loss | | | |
| Available for sale financial assets: | | | |
| - Unrealized (loss)/gain arising from measurement at fair value | | (78,581) | 1,898,331 |
| Other comprehensive income for the year, net of taxes | | 430,319 | 2,732,031 |
| Total comprehensive income for the year | | 12,856,993 | 13,821,870 |
| Attributable to: | | | |
| Owners of parent | | 12,856,993 | 13,821,870 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Consolidated Statement of Financial Position

**As at 31 December 2013**

| | | 2013 | 2012 Restated | 2011 Restated |
|---|---|---|---|---|
| **ASSETS** | **Note** | **KShs.'000** | **KShs.'000** | **KShs.'000** |
| Cash and balances with Central Banks | 20 | 33,940,577 | 36,419,912 | 42,708,016 |
| Due from banks | 21 | 10,402,010 | 10,421,565 | 25,812,084 |
| Held for trading investments | 22 | 6,241,984 | 2,923,263 | 367,938 |
| Available-for-sale investments | 23 | 39,220,350 | 15,916,877 | 9,204,501 |
| Clearing house | 24 | 789,203 | 1,107,088 | 1,434,999 |
| Other assets | 25 | 9,949,880 | 5,918,015 | 5,273,392 |
| Loans and advances to customers (Net) | 26 | 227,721,781 | 211,664,226 | 198,724,919 |
| Held to maturity investments | 27 | 47,533,782 | 70,451,164 | 36,432,197 |
| Tax recoverable | 18(b) | 740,020 | 10,598 | 20,557 |
| Property and equipment | 28(a) | 8,484,836 | 8,895,573 | 8,017,595 |
| Intangible assets | 29 | 1,403,180 | 1,173,945 | 1,516,684 |
| Prepaid operating lease rentals | 30 | 141,642 | 146,941 | 147,801 |
| Retirement benefit asset | 45 | 1,837,000 | 1,049,000 | - |
| Deferred tax asset | 32 | 2,445,334 | 1,920,618 | 1,003,276 |
| TOTAL ASSETS | | 390,851,579 | 368,018,785 | 330,663,959 |
| **LIABILITIES** | | | | |
| Due to banks | 33 | 6,650,977 | 9,333,589 | 14,105,149 |
| Customer deposits | 34 | 305,659,189 | 288,037,367 | 259,308,849 |
| Bills payable | 35 | 1,533,857 | 888,337 | 731,796 |
| Other liabilities | 36 | 5,753,565 | 4,728,035 | 3,294,966 |
| Tax payable | 18(b) | 179,377 | 1,813,086 | 119,372 |
| Retirement benefit liability | 45 | - | - | 92,000 |
| Long term debt | 38 | 7,719,647 | 8,923,312 | 8,525,000 |
| TOTAL LIABILITIES | | 327,496,612 | 313,723,726 | 286,177,132 |
| **EQUITY** | | | | |
| Share capital | 39 | 2,984,228 | 2,970,340 | 2,968,746 |
| Reserves | 40 | 60,370,739 | 51,324,719 | 41,518,081 |
| TOTAL EQUITY | | 63,354,967 | 54,295,059 | 44,486,827 |
| TOTAL LIABILITIES AND EQUITY | | 390,851,579 | 368,018,785 | 330,663,959 |

The financial statements set out on pages 86 to 172 were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

| | | | |
|---|---|---|---|
| Chairman | Chief Executive Officer | Director | Company Secretary |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Statement of Financial Position of the Bank

**As at 31 December 2013**

| ASSETS | Note | 2013 KShs.'000 | 2012 Restated KShs.'000 | 2011 Restated KShs.'000 |
|---|---|---|---|---|
| Cash and balances with Central Bank | 20 | 16,823,446 | 18,908,695 | 20,138,633 |
| Due from banks | 21 | 5,222,915 | 4,491,511 | 17,648,880 |
| Held for trading investments | 22 | 6,241,984 | 2,923,263 | 367,938 |
| Available-for-sale investments | 23 | 37,905,268 | 15,916,877 | 9,204,501 |
| Clearing house | 24 | 699,570 | 914,910 | 866,224 |
| Other assets | 25 | 7,708,976 | 4,519,544 | 3,915,575 |
| Loans and advances to customers (net) | 26 | 198,370,069 | 187,022,664 | 179,843,987 |
| Held to maturity investments | 27 | 28,504,194 | 51,095,443 | 34,023,362 |
| Tax recoverable | 18(b) | 679,218 | - | 9,418 |
| Property and equipment | 28(b) | 5,363,433 | 5,617,823 | 5,624,766 |
| Intangible assets | 29 | 1,334,265 | 1,140,932 | 1,476,594 |
| Prepaid operating lease rentals | 30 | 139,496 | 141,993 | 142,818 |
| Investment in subsidiaries and associated companies | 31 | 9,827,517 | 9,484,629 | 8,624,529 |
| Retirement benefit asset | 45 | 1,837,000 | 1,049,000 | - |
| Deferred tax asset | 32 | 2,027,503 | 1,524,523 | 554,128 |
| TOTAL ASSETS | | 322,684,854 | 304,751,807 | 282,441,353 |
| **LIABILITIES** | | | | |
| Due to banks | 33 | 5,516,617 | 8,261,878 | 11,502,571 |
| Customer deposits | 34 | 237,212,782 | 223,493,278 | 210,173,514 |
| Bills payable | 35 | 1,288,642 | 842,277 | 671,829 |
| Other liabilities | 36 | 3,863,664 | 2,259,117 | 672,374 |
| Tax payable | 18(b) | - | 1,713,284 | - |
| Balances due to group companies | 37 | 5,966,928 | 5,685,248 | 5,519,607 |
| Retirement benefit liability | 45 | - | - | 92,000 |
| Long term debt | 38 | 7,073,182 | 8,615,000 | 8,525,000 |
| TOTAL LIABILITIES | | 260,921,815 | 250,870,082 | 237,156,895 |
| **EQUITY** | | | | |
| Share capital | 39 | 2,984,228 | 2,970,340 | 2,968,746 |
| Reserves | 40 | 58,778,811 | 50,911,385 | 42,315,712 |
| TOTAL EQUITY | | 61,763,039 | 53,881,725 | 45,284,458 |
| TOTAL LIABILITIES AND EQUITY | | 322,684,854 | 304,751,807 | 282,441,353 |

The financial statements set out on pages 86 to 172 were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

| Chairman | Chief Executive Officer | Director | Company Secretary |
|---|---|---|---|

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

**For the year ended 31 December 2013**

| 2012: | Note | Share Capital KShs.'000 | Share Premium KShs.'000 | Statutory Credit Risk Reserve KShs.'000 | Translation Reserve KShs.'000 | Available-for Sale Reserve KShs.'000 | Retained Earnings KShs.'000 | Defined Benefit Reserve KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 – As previously stated | | 2,968,746 | 18,891,221 | 1,866,093 | (591,647) | (1,983,146) | 23,213,760 | - | 44,365,027 |
| Restatement – Retirement Benefit Scheme | 47 | - | - | - | - | - | - | 121,800 | 121,800 |
| At 1 January 2012 – As restated | | 2,968,746 | 18,891,221 | 1,866,093 | (591,647) | (1,983,146) | 23,213,760 | 121,800 | 44,486,827 |
| Profit for the year | | - | - | - | - | - | 12,203,531 | - | 12,203,531 |
| Other comprehensive income (net of taxes) | | - | - | - | 97,273 | 1,898,331 | - | - | 1,995,604 |
| Transfer to statutory credit risk reserve | | - | - | 1,285,435 | - | - | (1,285,435) | - | - |
| Re-measurement of defined benefit asset/liability (net of taxes) | 47 | - | - | - | - | - | - | 833,700 | 833,700 |
| Total comprehensive income | | - | - | 1,285,435 | 97,273 | 1,898,331 | 10,918,096 | 833,700 | 15,032,835 |
| Transactions with owners recorded directly in equity | | | | | | | | | |
| Dividend paid – 2011 | | - | - | - | - | - | (5,492,180) | - | (5,492,180) |
| Proposed dividend – 2012 | 41 | - | - | - | - | - | - | - | - |
| Share based payment transactions | 39 | - | - | - | - | - | 235,636 | - | 235,636 |
| Employee share options exercised | 39 | 1,594 | 30,347 | - | - | - | - | - | 31,941 |
| | | 1,594 | 30,347 | - | - | - | (5,256,544) | | (5,224,603) |
| At 31 December 2012 | | 2,970,340 | 18,921,568 | 3,151,528 | (494,374) | (84,815) | 28,875,312 | 955,500 | 54,295,059 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity *(Continued)*

**For the year ended 31 December 2013**

| 2013: | Note | Share Capital KShs.'000 | Share Premium KShs.'000 | Statutory Credit Risk Reserve KShs.'000 | Translation Reserve KShs.'000 | Available-for Sale Reserve KShs.'000 | Retained Earnings KShs.'000 | Defined Benefit Reserve KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 – As previously stated | | 2,970,340 | 18,921,568 | 3,151,528 | (494,374) | (84,815) | 28,875,312 | - | 53,339,559 |
| Restatement - Retirement Benefit Scheme | 47 | - | - | - | - | - | - | 955,500 | 955,500 |
| At 1 January 2013 – As restated | | 2,970,340 | 18,921,568 | 3,151,528 | (494,374) | (84,815) | 28,875,312 | 955,500 | 54,295,059 |
| Profit for the year | | - | - | - | - | - | 14,341,382 | - | 14,341,382 |
| Other comprehensive income (net of taxes) | | - | - | - | (736,114) | (78,581) | | | (814,695) |
| Transfer to statutory credit risk reserve | | - | - | 1,219,727 | - | - | (1,219,727) | - | - |
| Re-measurement of defined benefit asset/liability (net of taxes) | 47 | - | - | - | - | - | - | 508,900 | 508,900 |
| Total comprehensive income | | - | - | 1,219,727 | (736,114) | (78,581) | 13,121,655 | 508,900 | 14,035,587 |
| Transactions with owners recorded directly in equity | | | | | | | | | |
| Dividend paid – 2012 | | - | - | - | - | - | (5,643,646) | - | (5,643,646) |
| Proposed dividend – 2013 | 41 | - | - | - | - | - | - | - | - |
| Share based payment transactions | 39 | - | - | - | - | - | 245,447 | - | 245,447 |
| Employee share options exercised | 39 | 13,888 | 408,632 | - | - | - | - | - | 422,520 |
| | | 13,888 | 408,632 | - | - | - | (5,398,199) | - | (4,975,679) |
| At 31 December 2013 | | 2,984,228 | 19,330,200 | 4,371,255 | (1,230,488) | (163,396) | 36,598,768 | 1,464,400 | 63,354,967 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Statement of Changes in Equity of the Bank

**For the year ended 31 December 2013**

| 2012: | Note | Share Capital KShs.'000 | Share Premium KShs.'000 | Statutory Credit Risk Reserve KShs.'000 | Available-for Sale Reserve KShs.'000 | Retained Earnings KShs.'000 | Benefit Reserve KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 – As previously stated | | 2,968,746 | 18,891,221 | 1,517,136 | (1,983,146) | 23,768,701 | - | 45,162,658 |
| Restatement – Retirement Benefit Scheme | 47 | - | - | - | - | - | 121,800 | 121,800 |
| At 1 January 2012 – As restated | | 2,968,746 | 18,891,221 | 1,517,136 | (1,983,146) | 23,768,701 | 121,800 | 45,284,458 |
| Profit for the year | | - | - | - | - | 11,089,839 | - | 11,089,839 |
| Other comprehensive income (net of taxes) | | - | - | - | 1,898,331 | | | 1,898,331 |
| Transfer to statutory credit risk reserve | | - | - | 1,282,748 | - | (1,282,748) | - | - |
| Remeasurement of defined benefit asset/liability (net of taxes) | | - | - | - | - | - | 833,700 | 833,700 |
| | | - | - | 1,282,748 | 1,898,331 | 9,807,091 | 833,700 | 13,821,870 |
| Transactions with owners recorded directly in equity | | | | | | | | |
| Dividend paid – 2011 | 41 | - | - | - | - | (5,492,180) | - | (5,492,180) |
| Share based payment transactions | 39 | - | - | - | - | 235,636 | - | 235,636 |
| Employee share options exercised | 39 | 1,594 | 30,347 | - | - | - | - | 31,941 |
| | | 1,594 | 30,347 | - | - | (5,256,544) | - | (5,224,603) |
| At 31 December 2012 | | 2,970,340 | 18,921,568 | 2,799,884 | (84,815) | 28,319,248 | 955,500 | 53,881,725 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Statement of Changes in Equity of the Bank *(Continued)*

**For the year ended 31 December 2013**

| 2013: | Note | Share capital KShs.'000 | Share premium KShs.'000 | Statutory credit risk reserve KShs.'000 | Available-for sale reserve KShs.'000 | Retained earnings KShs.'000 | Defined Benefit reserve KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 – As previously stated | | 2,970,340 | 18,921,568 | 2,799,884 | (84,815) | 28,319,248 | - | 52,926,225 |
| Restatement – Retirement Benefit Scheme | 47 | - | - | - | - | - | 955,500 | 955,500 |
| At 1 January 2013 – As restated | | 2,970,340 | 18,921,568 | 2,799,884 | (84,815) | 28,319,248 | 955,500 | 53,881,725 |
| Profit for the year | | - | - | - | - | 12,426,674 | - | 12,426,674 |
| Other comprehensive income (net of taxes) | | - | - | - | (78,581) | - | - | (78,581) |
| Transfer to statutory credit risk reserve | | - | - | 420,252 | - | (420,252) | - | - |
| Remeasurement of defined benefit asset/liability (net of taxes) | | - | - | - | - | - | 508,900 | 508,900 |
| | | - | - | 420,252 | (78,581) | 12,006,422 | 508,900 | 12,856,993 |
| Transactions with owners recorded directly in equity | | | | | | | | |
| Dividend paid – 2012 | 41 | - | - | - | - | (5,643,646) | - | (5,643,646) |
| Share based payment transactions | 39 | - | - | - | - | 245,447 | - | 245,447 |
| Employee share options exercised | 39 | 13,888 | 408,632 | - | - | - | - | 422,520 |
| | | 13,888 | 408,632 | - | - | (5,398,199) | - | (4,975,679) |
| At 31 December 2013 | | 2,984,228 | 19,330,200 | 3,220,136 | (163,396) | 34,927,471 | 1,464,400 | 61,763,039 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

**For the year ended 31 December 2013 (continued)**

| | Note | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|---|
| Net cash flows generated from operating activities | 42(a) | 5,205,833 | 6,009,336 |
| Investing activities | | | |
| Proceeds from disposal of property and equipment | | 84,879 | 82,794 |
| Purchase of intangible assets | 29 | (807,330) | (196,187) |
| Purchase of property and equipment | 28 | (1,742,986) | (2,665,360) |
| Effects of exchange rate changes on Translation of foreign operation | | (736,114) | 119,156 |
| Net cash flows used in investing activities | | (3,201,551) | (2,659,597) |
| Financing activities | | | |
| Proceeds from additional shares floated | | 422,520 | 31,941 |
| Net movement in borrowings | 38 | (1,213,795) | - |
| Dividends paid | 41 | (5,643,646) | (5,492,180) |
| Net cash flows used in financing activities | | (6,434,921) | (5,460,239) |
| Decrease in cash and cash equivalents | | (4,430,639) | ( 2,110,500) |
| Cash and cash equivalents at the beginning of the year | | 39,820,916 | 41,931,416 |
| Cash and cash equivalents at the end of the year | 42(b) | 35,390,277 | 39,820,916 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

# Statement of Cash Flows of the Bank

**For the year ended 31 December 2013**

| | Note | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|---|
| Net cash flows generated from operating activities | 42(a) | 5,971,970 | 11,920,252 |
| Investing activities | | | |
| Proceeds from disposal of property and equipment | | 79,402 | 78,249 |
| Purchase of intangible assets | 29 | (753,938) | (191,018) |
| Purchase of property and equipment | 28 | (1,065,935) | (1,271,120) |
| Investment in subsidiaries | 31 | (342,888) | (860,100) |
| Net cash flows used in investing activities | | (2,083,359) | (2,243,989) |
| Financing activities | | | |
| Proceeds from additional shares floated | | 422,520 | 31,941 |
| Repayment of borrowings | 38 | (1,551,948) | - |
| Dividends paid | 41 | (5,643,646) | (5,492,180) |
| Net cash flows used in financing activities | | (6,773,074) | (5,460,239) |
| Increase in cash and cash equivalents | | (2,884,463) | 4,216,024 |
| Cash and cash equivalents at the beginning of the year | | 19,313,064 | 15,097,040 |
| Cash and cash equivalents at the end of the year | 42(b) | 16,428,601 | 19,313,064 |

The notes set out on pages 98 to 172 form an integral part of these financial statements.

## 1. REPORTING ENTITY

Kenya Commercial Bank Limited is a financial institution licensed under the Kenyan Banking Act (Chapter 488), and provides corporate and retail banking and bancassurance services in various parts of the country.

The Bank is incorporated in Kenya under the Kenyan Companies Act and has subsidiaries in Kenya, Tanzania, South Sudan, Uganda, Rwanda and Burundi. The consolidated financial statements of the Bank as at 31 December 2013 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as the "Bank") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
PO Box 48400 - 00100
Nairobi

The Bank has a 100% ownership in Kenya Commercial Finance Company Ltd, Savings & Loan Kenya Ltd, Kenya Commercial Bank Nominees Ltd, Kencom House Ltd, KCB Bank Tanzania Ltd, KCB Bank South Sudan Ltd, KCB Bank Rwanda Ltd, KCB Bank Uganda Ltd, KCB Bank Burundi Ltd, KCB Insurance Agency Ltd and a 45% ownership in United Finance Ltd.

The shares of the Bank are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the income statement and statement of comprehensive income in these financial statements.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements of the Bank and its subsidiaries as well as the separate financial statements of the Bank, together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

### (c) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs), which is the Bank's functional currency. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs.'000).

## 2. BASIS OF PREPARATION (continued)

### (d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements.

Certain comparative amounts in the statement of total comprehensive income and statement of financial position have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income.

### (a) Adoption of new standards or amendments effective for the year ended 31 December 2013

| New standard or amendments | Effective for annual periods beginning on or after |
|---|---|
| • Amendments to IFRS 7-Disclosures-Offsetting Financial Assets and Financial Liabilities. | 1 January 2013 |
| • IFRS 10-Consolidated Financial Statements | 1 January 2013 |
| • IFRS 11-Joint Arrangements | 1 January 2013 |
| • IFRS 12-Disclosure of Interests in Other Entities | 1 January 2013 |
| • Amendments to IFRS 10, IFRS 11 and IFRS 12-Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance | 1 January 2013 |
| • IFRS 13-Fair value measurement | 1 January 2013 |
| • IAS 19-Employee Benefits (2011) | 1 January 2013 |
| • IAS 27-Separate Financial Statements (2011) | 1 January 2013 |
| • IAS 28-Investments in Associates and Joint Ventures (2011) | 1 January 2013 |

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013:-

*(i) IFRS 10: Consolidated Financial Statements*

IFRS 10 requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements. The IFRS replaces the requirements previously in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 Consolidation-Special Purpose Entities.

The Standard defines the principle of control and establishes control as a basis of consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must control the investee, sets out the accounting treatment for the preparation of consolidated financial statements and defines an investment entity and sets out an exception to consolidating particular subsidiaries of an entity.

An investor controls an investee if and only if the investor has all of the following:

- power over the investee
- exposure, or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns

The Group reassessed its control conclusions as of 1 January 2013. Following the reassessment, there was no impact on the Group Financial Statements.

*(ii) IFRS 12: Disclosure of Interests in Other Entities*

IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. To meet the disclosure requirements, the IFRS requires an entity to present information relating to:

- Significant judgments and assumptions it has made in determining the nature of its interests in another entity or arrangement,

- Information about interests in subsidiaries, joint arrangements and associates and structured entities that are not controlled by the entity (unconsolidated structured entities).

The Group has made adequate disclosures about its interests in subsidiaries (see Note 31) in line with IFRS 12. There were no unconsolidated structured entities in the Group as at 31 December 2013.

*(iii) IFRS 13: Fair Value Measurements*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The IFRS explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

*(iii) IFRS 13: Fair Value Measurements (continued)*

- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

Some IFRSs require or permit entities to measure or disclose fair value of assets, liabilities or their own equity instruments. Because those IFRS were developed over many years, the requirement for measuring fair value and for disclosing information about fair value measurements were dispersed and in many cases did not articulate a clear measurement or disclosure objective. There was hence not always consistent guidance across the IFRSs that refer to fair value hence hampering comparability of information reported in financial statements. IFRS 13 remedies the situation.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

*(iv) Amendments to IFRS 7: Disclosures-Offsetting Financial Assets and Financial Liabilities*

Amends the disclosure requirements in IFRS 7 Financial Instruments disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements of similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set off associated with an entity's recognised financial assets recognised financial liabilities on the entity's financial position.

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

*(v) IAS 19: Employee Benefits (2011)*

Amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The amended IAS 19 requires that actuarial gains and losses are recognised immediately in other comprehensive income. The change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation plan assets in profit or loss, which was allowed previously under IAS 19. It also requires that expected return on plan assets

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

recognised in profit and loss is calculated based on the rate used to discount the defined benefit obligation.

*(v) IAS 19 Employee Benefits (2011) (continued)*

Consequently, in line with the revised accounting standard, the Group has changed its accounting policy with respect to its post-employment defined benefits and applied it retrospectively leading to a restatement of certain comparative amounts for year's 2011 and 2012 Statements of Financial Position.

*(vi) IAS 1: Presentation of Financial Statements*

As a result of amendment to IAS 1, the group has modified the presentation of items of Other Comprehensive Income (OCI) in its statement of profit and loss and OCI to present separately items that would be reclassified to profit and loss from those that would never be. Comparative information has been re-presented accordingly.

*(vii) IAS 27: Separate Financial Statements*

The amended IAS 27-Separate Financial Statements now only deals with requirements for separate financial statements which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated Financial Statements are now contained in IFRS 10-Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost or in accordance with IFRS 9, Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations, and includes a number of disclosure requirements.

*(viii) IAS 28: Investment in Associates and Joint Ventures (2011)*

The Standard supersedes IAS 28 Investment in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard defines significant influence and provides guidance on how equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard has not had an impact on the Group.

(b) New Standards and amendments not yet effected

*(i) IFRS 9-Financial Instruments (2010)*

| New standard or amendments | Effective for annual periods beginning on or after |
|---|---|
| • IFRS 9 Financial Instruments (2010) | 1 January 2018 |
| • Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011) | 1 January 2014 |
| • Amendments to IFRS 10, IFRS 12, and IAS 27 (2012) | 1 January 2014 |
| • Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013) | 1 January 2014 |
| • IFRIC 21 Levies (2013) | |

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

*(i) IFRS 9: Financial Instruments (2010)*

It replaces parts of IAS 39 - Financial Instruments, Recognition and Measurement that relates classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

*(ii) Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities*

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

*(iii) Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2012)*

The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014,

The Directors do not anticipate any effect on the Company's consolidated financial statements as the parent company is not an investment entity.

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014.

*(v) Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (June 2013)*

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) New Standards and amendments not yet effected (continued)

*(vi) IFRIC 21: Levies (2013)*

The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014.

The Group did not early adopt new or amended Standards in 2013 and is in the process of assessing the impact.

#### (c) Basis of consolidation

*(i) Subsidiaries*

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*(ii) Associate*

The Group has an investment in an associate which is dormant.

Associates are entities in which the Group has significant influence, but not control, over the financial and operational policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. The Group's investment in its associate is accounted for using the equity method and is recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of profit or loss and other comprehensive income of the equity accounted investee, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Bank's investment in associate is accounted for at cost in its separate financial statements.

*(iii) Loss of Control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Basis of consolidation (continued)

*(iv) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (d) Foreign Currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within “finance income or costs”. All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within “other gains/losses-net”.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

**Foreign operations**

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date, and their income statements are translated at the weighted average exchange rates for the period. Exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

### (e) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised:

*(i) Interest income and expense*

Interest income and expense are recognised in profit or loss using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Recognition of income and expense (continued)

The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying asset or financial liability. When calculating effective interest rate, the Group estimates future cash-flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense recognized in profit or loss include:-

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.
- Interest on available for sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value through profit and loss in the income statement.

*(ii) Dividend income*

Dividend income is recognised when the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

*(iii) Fees and commission income*

Fees and commission income and expense are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction. Fees and commission that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

*(iv) Rental income*

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

*(v) Net trading income*

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Recognition of income and expense (continued)

### (f) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

### (g) Financial assets and financial liabilities

#### *(i) Recognition*

The Group initially recognizes loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets and financial liabilities (continued)

debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

**(ii) Classification and measurement**

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

*i) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

*ii) Loans, advances and receivables*

Loans and advances to customers and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

**(ii) Classification and measurement (continued)**

*iii) Held to maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets and financial liabilities (continued)

entire category as available for sale. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest method.

*iv) Available for sale*

Available for sale financial investments are those non derivative financial assets that are designated as available for sale or are not classified as any other category of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available for sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

**Financial Liabilities**

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net or directly attributable transaction costs incurred. Subsequent measurements of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities will include deposits from banks or customers, trade payables from the brokerage and lines of credit for which the fair value option is not applied.

*(iii) Identification and measurement of impairment of financial assets*

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

*(iii) Identification and measurement of impairment of financial assets (continued)*

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(g) Financial assets and financial liabilities (continued)

in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

**Amounts classified as available for sale**

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If in subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

*(iv) De- recognition*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets and financial liabilities (continued)

transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

*(v) Offsetting of financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

*(vi) Restructured Loans*

Restructured troubled loans and advances are loans and advances for which the Group has granted a concession to the borrower due to a deterioration of the borrower's financial condition. The restructuring may include:

- A modification of terms, e.g., a reduction in the interest from that originally agreed or a reduction in the principal amount; and

- The transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or equity interest in the borrower in full or partial satisfaction of the loan.

Such restructured loans and advances whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the new arrangement have been received.

*(vii) Fair value of financial assets and financial liabilities*

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

*(viii) Amortized cost measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are measured at amortized cost using effective interest method in the statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Financial assets and financial liabilities (continued)

#### (i) Property and equipment

*(i) Recognition and measurement*

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

*(ii) Depreciation*

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

| Asset Category | Rate |
|---|---|
| Freehold land | Nil |
| Leasehold improvements the shorter of the lease | Rates based on term or estimated useful lives |
| Motor vehicles | 25% |
| Furniture and fittings | 10% |
| Office equipment | 20% |
| Computers | 20% |

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

*(iii) Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrent repairs and maintenance are expensed as incurred.

#### (j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years. There are no intangible assets with indefinite useful lives.

### (k) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Where the Group is a lessor, it presents assets subject to operating leases in Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. Upon recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

#### *(i) Operating lease*

The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### *(ii) Finance lease*

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

### (l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset or

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Leases (continued)

its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

### (m) Investment in subsidiaries

Investments in subsidiary companies are carried at cost in the Bank's separate financial statements, which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. The carrying amount is reduced to recognize any impairment in the value of individual investments. The impairment loss is taken to profit or loss.

### (n) Employee benefit cost

The Group operates both a defined contribution plan and defined benefit plan.

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(ii) Defined benefit plans**

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit scheme net obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income.

The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss. When the benefits of a plan are changed or when a plan

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Employee benefit cost (continued)

is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

**(iii) Other long term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

**(iv) Short-term benefits**

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(v) Termination benefits**

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(vi) Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

### (o) Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefit cost (continued)

assets to customers are excluded from these financial statements.

(p) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the directors.

(q) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(s) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(t) Related parties

In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

### 4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

### (a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets and settlement balances with market counterparties and reverse repurchase loans.

#### *(i) Management of credit risk*

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;

### 4. FINANCIAL RISK MANAGEMENT (continued)

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit managers. Larger facilities require approval by the Board of Directors;
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- Developing and maintaining the Group's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk;
- Each business unit is required to implement the Group's credit policies and procedures. Each business unit has a credit manager who reports on all credit related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval; and
- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department.

*(ii) Credit risk measurement*

The Group assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Group are segmented into five rating classes.

The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating scale is kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

### 4. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

The Group's internal ratings scale is as follows:

Grade 1 - Normal risk

Grade 2 - Watch risk

Grade 3 - Sub-standard risk

Grade 4 - Doubtful risk

Grade 5 - Loss

*(iii) Impairment and allowance policies*

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment allowance recognized in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment allowance is composed largely of the bottom two grades.

The Group's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

| | GROUP | | BANK | |
|---|---|---|---|---|
| **Individually impaired** | **2013 KShs.'000** | **2012 KShs.'000** | **2013 KShs.'000** | **2012 KShs.'000** |
| Grade 3 | 7,246,557 | 4,177,049 | 6,151,311 | 3,082,060 |
| Grade 4 | 2,990,862 | 4,046,213 | 2,298,697 | 3,346,932 |
| Grade 5 | 8,990,285 | 6,527,073 | 6,749,941 | 5,590,212 |
| Gross amount | 19,227,704 | 14,750,335 | 15,199,949 | 12,019,204 |
| Allowance for impairment | (6,518,471) | (6,835,904) | (4,970,039) | (5,816,635) |
| Carrying amount | 12,709,233 | 7,914,431 | 10,229,910 | 6,202,569 |
| Collectively impaired | | | | |
| Grade 1 | 182,759,807 | 191,534,552 | 158,376,074 | 171,590,472 |
| Grade 2 | 34,622,225 | 14,264,682 | 31,883,797 | 11,056,955 |
| Gross amount | 217,382,032 | 205,799,234 | 190,259,871 | 182,647,427 |
| Allowance for impairment | (2,369,484) | (2,049,439) | (2,119,712) | (1,827,332) |
| | 215,012,548 | 203,749,795 | 188,140,159 | 180,820,095 |
| Total carrying amount | 227,721,781 | 211,664,226 | 198,370,069 | 187,022,664 |

The other financial assets, other than loans and advances, are neither impaired or past due.

Loans and advances graded 3, 4 and 5 in the Group's internal credit risk grading system include items that are individually impaired. These are advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Loans and advances graded 1 and 2 are not individually impaired. Allowances for impairment losses for these loans and advances are assessed collectively.

The Group also complies with Central Banks' prudential guidelines on general and specific provisioning. Excess allowances for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to statutory credit risk reserve.

The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

### 4. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Credit risk (continued)

(iv) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Less than 60 days | 32,407,572 | 12,979,160 | 30,927,283 | 10,725,247 |
| Between 60 and 120 days | 2,825,620 | 2,219,746 | 2,130,000 | 1,346,269 |
| Greater than 120 days | 1,254,356 | 5,095,863 | - | - |
| | 36,487,548 | 20,294,769 | 33,057,283 | 12,071,516 |

*(v) Credit related commitment risk*

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

*(vi) Write-off policy*

The Group writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

*(vii) Collateral on loans and advances*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

*(viii) Concentration of credit risk*

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of customers and its loans and advances are structured and spread among a number of customers. The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Construction | 44,004,438 | 38,248,572 | 37,901,763 | 31,460,090 |
| Micro credit | 70,748,334 | 58,019,312 | 68,322,788 | 56,342,584 |
| Agriculture | 7,741,808 | 9,650,482 | 7,079,160 | 8,434,560 |
| SME | 36,438,636 | 27,908,973 | 26,054,428 | 20,534,484 |
| Corporate | 77,676,789 | 86,722,230 | 66,101,681 | 77,894,913 |
| | 236,610,005 | 220,549,569 | 205,459,820 | 194,666,631 |

*(ix) Fair value of collateral held*

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2013 and 2012. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

## 4. FINANCIAL RISK MANAGEMENT (continued)

*(ix) Fair value of collateral held (continued)*

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Impaired loans | 9,058,996 | 8,605,275 | 5,376,080 | 6,687,624 |
| Performing loans | 183,778,972 | 178,748,273 | 153,462,778 | 140,362,006 |
| | 192,837,968 | 187,353,548 | 158,838,858 | 147,049,630 |

### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

| | GROUP 2013 | BANK 2013 | GROUP 2012 | BANK 2012 |
|---|---|---|---|---|
| At close of the year | 35.0% | 33.3% | 35.97% | 35.5% |
| Average for the year | 34.9% | 34.5% | 34.63% | 34.5% |
| Maximum for the year | 38.3% | 37.9% | 37.72% | 37.9% |
| Minimum for the year | 31.0% | 31.0% | 30.97% | 29.5% |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2013 and 31 December 2012, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities or re-pricing dates.

| As at 31 December 2013 | Up to 1 month KShs.'000 | 1-3 months KShs.'000 | 3– 12 months KShs.'000 | 1-5 years KShs.'000 | Over 5 years KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|
| Cash and balances with Central Banks | 33,940,577 | - | - | - | - | 33,940,577 |
| Due from banks | 10,402,010 | - | - | - | - | 10,402,010 |
| Held for trading investments | 6,241,984 | - | - | - | - | 6,241,984 |
| Available for sale investments | - | - | - | 39,097,777 | 122,573 | 39,220,350 |
| Held to maturity investments | 746,012 | 437,287 | 6,650,720 | 21,849,093 | 17,850,670 | 47,533,782 |
| Loans and advances to customers | 39,132,352 | 187,827,587 | 13,820 | 118,445 | 629,577 | 227,721,781 |
| Clearing house | - | - | 789,203 | - | - | 789,203 |
| Total financial assets | 90,462,935 | 188,264,874 | 7,453,743 | 61,065,315 | 18,602,820 | 365,849,687 |
| Due to banks | 3,697,900 | 2,953,077 | - | - | - | 6,650,977 |
| Other customer deposits | 242,657,804 | 39,069,354 | 13,390,447 | 10,541,584 | - | 305,659,189 |
| Bills payable | - | - | 1,533,857 | - | - | 1,533,857 |
| Long term debt | - | - | 1,541,818 | 6,177,829 | - | 7,719,647 |
| Total financial liabilities | 246,355,704 | 42,022,431 | 16,466,122 | 16,719,413 | - | 321,563,670 |
| | (155,892,769) | 146,242,443 | (9,012,379) | 44,345,902 | 18,602,820 | 44,286,017 |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (Continued)

| As at 31 December 2012 | Up to 1 month KShs.'000 | 1-3 months KShs.'000 | 3– 12 months KShs.'000 | 1-5 years KShs.'000 | Over 5 years KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|
| Cash and balances with Central Banks | 16,823,446 | - | - | - | - | 16,823,446 |
| Due from banks | 5,222,915 | - | - | - | - | 5,222,915 |
| Held for trading investments | 6,241,984 | - | - | - | - | 6,241,984 |
| Available for sale investments | - | - | - | 37,782,695 | 122,573 | 37,905,268 |
| Held to maturity investments | 447,355 | 202,258 | 3,988,183 | 13,102,067 | 10,764,331 | 28,504,194 |
| Loans and advances to customers | 34,088,471 | 163,618,143 | 12,039 | 103,178 | 548,238 | 198,370,069 |
| Clearing house | - | - | 699,570 | - | - | 699,570 |
| Total financial assets | 62,824,171 | 163,820,401 | 4,699,792 | 50,987,940 | 11,435,142 | 293,767,446 |
| Due to banks | 3,697,900 | 1,818,717 | - | - | - | 5,516,617 |
| Other customer deposits | 188,319,327 | 30,320,535 | 10,391,918 | 8,181,002 | - | 237,212,782 |
| Bills payable | - | - | 1,288,642 | - | - | 1,288,642 |
| Long term debt | - | - | 1,541,818 | 5,558,364 | - | 7,100,182 |
| Total financial liabilities | 192,017,227 | 32,139,252 | 13,222,378 | 13,739,366 | - | 251,118,223 |
| | (129,193,056) | 131,681,149 | (8,522,586) | 37,248,574 | 11,435,142 | 42,649,223 |

### (c) Market Risk

#### (i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (c) Market Risk (continued)

#### (i) Currency risk (continued)

The table below summarizes the foreign currency exposure as at 31 December 2013 and 31 December 2012:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Assets in foreign currencies | 81,242,861 | 165,842,541 | 49,812,968 | 144,226,640 |
| Liabilities in foreign currencies | (84,667,207) | (166,047,997) | (51,206,126) | (144,095,570) |
| Net foreign currency exposure at the end of the year | (3,424,346) | (205,456) | (1,393,158) | 131,070 |

| 31 December 2013: | USD KShs.'000 | GBP KShs.'000 | Euro KShs.'000 | Other KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with Central Bank of Kenya | 3,810,350 | 192,488 | 2,996,008 | 362,586 | 7,361,432 |
| Loans and advances to banks | 5,080,483 | 38,342 | 291,507 | 72,787 | 5,483,119 |
| Loans and advances to customers | 32,911,083 | 74,971 | 2,024,588 | - | 35,010,642 |
| Other assets | 1,638,627 | 198,561 | 170,656 | 22,747 | 2,030,591 |
| At 31 December 2013 | 43,440,543 | 504,362 | 5,482,759 | 458,120 | 49,885,784 |
| LIABILITIES | | | | | |
| Deposits from banks | 834,674 | 36,563 | - | 46,213 | 917,450 |
| Deposits from customers | 20,377,568 | 360,553 | 4,489,024 | 42,934 | 25,270,079 |
| Other liabilities | 16,695,565 | 28,014 | 487,497 | 39,305 | 17,250,381 |
| Long-term borrowings | 7,719,647 | - | - | - | 7,719,647 |
| At 31 December 2013 | 45,627,454 | 425,130 | 4,976,521 | 128,452 | 51,157,557 |
| Net statement of financial position exposure | (2,186,911) | 79,232 | 506,238 | 329,668 | (1,271,773) |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| Increase/decrease in exchange rate | | Effect on profit before tax 2013 KShs.'000 | Effect on profit before tax 2012 KShs.'000 | Effect on equity 2013 KShs.'000 | Effect on equity 2012 KShs.'000 |
|---|---|---|---|---|---|
| USD | 10% | 40,008 | 23,572 | 28,005 | 16,500 |
| GBP | 10% | 783 | 9,788 | 548 | 6,852 |
| EUR | 10% | 6,063 | 8,552 | 4,244 | 5,986 |

(ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee is the monitoring body for compliance with the set interest rate gaps.

**4. FINANCIAL RISK MANAGEMENT (continued)**

(c) Market Risk (Continued)

*(ii) Interest rate risk (Continued)*

The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

| As at 31 December 2013 | Weighted interest rates | Up to 1 month KShs.'000 | 1-3 month KShs.'000 | 3– 12 month KShs.'000 | 1-5 years KShs.'000 | Over 5 years KShs.'000 | Non-interest bearing KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with Central Banks | - | - | - | - | - | - | 33,940,577 | 33,940,577 |
| Due from banks | 8.3% | 10,402,010 | - | - | - | - | - | 10,402,010 |
| Held for trading investments | 8.9% | 6,241,984 | - | - | - | - | - | 6,241,984 |
| Available for sale investments | 8.9% | - | - | - | 39,097,777 | - | 122,573 | 39,220,350 |
| Loans and advances to customers | 18.4% | 39,132,352 | 187,827,587 | 13,820 | 118,445 | 629,577 | - | 227,721,781 |
| Clearing house | - | - | - | - | - | - | 789,203 | 789,203 |
| Held to maturity investments | 8.9% | 746,012 | 437,287 | 6,650,720 | 21,849,093 | 17,850,670 | - | 47,533,782 |
| Total assets | | 56,522,358 | 188,264,874 | 6,664,540 | 61,065,315 | 18,480,247 | 34,852,353 | 365,849,687 |
| Due to banks | 8.3% | 3,697,900 | 2,953,077 | - | - | - | - | 6,650,977 |
| Other customer deposits | 4.6% | 242,657,804 | 39,069,354 | 13,390,447 | 10,541,584 | - | - | 305,659,189 |
| Bills payable | - | - | - | - | - | - | 1,533,857 | 1,533,857 |
| Long term debt | 2.3% | - | - | 1,514,818 | 6,204,829 | - | - | 7,719,647 |
| Total liabilities and equity | | 246,355,704 | 42,022,431 | 14,905,265 | 16,746,413 | - | 1,533,857 | 321,563,670 |
| Interest rate sensitivity gap | | (189,833,349) | 146,242,443 | (8,240,725) | 44,318,902 | 18,480,247 | 33,318,496 | 44,286,017 |

### 4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risk (Continued)

*(ii) Interest rate risk (Continued)*

The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

| As at 31 December 2012 | Weighted interest rates | Up to month KShs.'000 | 1-3 month KShs.'000 | 3– 12 month KShs.'000 | 1-5 years KShs.'000 | Over 5 years KShs.'000 | Non-interest bearing KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with Central Banks | - | - | - | -` | - | - | 16,823,446 | 16,823,446 |
| Due from banks | 8.3% | 5,222,915 | - | - | - | - | - | 5,222,915 |
| Held for trading investments | 8.9% | 6,241,984 | - | - | - | - | - | 6,241,984 |
| Available for sale investments | 8.9% | - | - | - | 37,782,695 | - | 122,573 | 37,905,268 |
| Loans and advances to customers | 18.4% | 34,088,471 | 163,618,143 | 12,039 | 103,178 | 548,238 | - | 198,370,069 |
| Clearing house | - | - | - | - | - | - | 699,570 | 699,570 |
| Held to maturity investments | 8.9% | 447,355 | 202,258 | 3,988,183 | 13,102,067 | 10,764,331 | - | 28,504,194 |
| Total assets | | 46,000,725 | 163,820,401 | 4,000,222 | 50,987,940 | 11,312,569 | 17,645,589 | 293,767,446 |
| Due to banks | 8.3% | 3,697,900 | 1,818,717 | - | - | - | - | 5,516,617 |
| Other customer deposits | 4.6% | 188,319,327 | 30,320,535 | 10,391,918 | 8,181,002 | - | - | 237,212,782 |
| Bills payable | - | - | - | - | - | - | 1,288,642 | 1,288,642 |
| Long term debt | 2.3% | - | - | 1,514,818 | 5,558,364 | - | - | 7,073,182 |
| Total liabilities and equity | | 192,017,227 | 32,139,252 | 11,906,736 | 13,739,366 | - | 1,288,642 | 251,091,223 |
| Interest rate sensitivity gap | | (146,016,502) | 131,681,149 | (7,906,514) | 37,248,574 | 11,312,569 | 16,356,947 | 42,676,223 |

**4. FINANCIAL RISK MANAGEMENT (continued)**

c) Market Risk (Continued)

*(ii) Interest rate risk (Continued)*

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss:

| | 1% change in 2013 | | 1% change in 2012 | |
|---|---|---|---|---|
| **GROUP** | **Full Year KShs.'000** | **From June KShs.'000** | **Full Year KShs.'000** | **From June KShs.'000** |
| As at 31 December | 891,676 | 836,226 | 789,762 | 766,595 |
| Average for the period | 840,719 | 801,410 | 675,039 | 694,260 |

| | 1% change in 2013 | | 1% change in 2012 | |
|---|---|---|---|---|
| **BANK** | **Full Year KShs.'000** | **From June KShs.'000** | **Full Year KShs.'000** | **From June KShs.'000** |
| As at 31 December | 871,242 | 739,033 | 785,691 | 682,539 |
| Average for the period | 830,713 | 711,909 | 673,003 | 652,232 |

(d) Capital management

The primary objective of the Bank's capital management is to ensure that the Bank complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Kenya. The Central Bank of Kenya sets and monitors capital requirements for the banking industry as a whole.

In implementing current capital requirements, the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analyzed into two tiers:

- Core Capital (Tier 1), which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Supplementary Capital (Tier 2) which includes the regulatory credit risk reserve.

Various limits are applied to elements of the capital base.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### (d) Capital management (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The capital management policies of the group remain consistent with prior year.

The Bank's regulatory capital position at 31 December was as follows:

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Core Capital (Tier 1): | | |
| Ordinary share capital | 2,984,228 | 2,970,340 |
| Retained earnings | 37,019,471 | 28,319,248 |
| Share premium | 19,330,200 | 18,921,568 |
| Less: Investments in financial institutions | (8,428,648) | (8,085,759) |
| Total Core Capital | 50,905,251 | 42,125,397 |
| Supplementary Capital (Tier 2): | 10,293,318 | 2,799,884 |
| Total regulatory capital | 61,198,569 | 44,925,281 |
| Risk weighted assets | 272,565,071 | 197,733,995 |
| Capital ratios: | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets | 22.5% | 22.7% |
| Total tier 1 capital expressed as a percentage of total risk-weighted assets | 18.7% | 21.3% |
| The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows: | | |
| Total core capital expressed as a percentage of total risk-weighted assets | 14.5% | 12.0% |
| Total tier 1 capital expressed as a percentage of total risk-weighted assets | 10.5% | 8.0% |

As at end of the year, the minimum core capital requirement by Central Bank of Kenya was KShs. 1 billion. The Bank was in compliance with all statutory capital requirements as at end of the year.

## 5. OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business units.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Group's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

## 6. USE OF ESTIMATES AND JUDGMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

### (a) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

### 6. USE OF ESTIMATES AND JUDGMENTS (continued)

#### (a) Impairment losses on loans and advances (continued)

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the group.

#### (b) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognised at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

## 6. USE OF ESTIMATES AND JUDGMENTS (continued)

### (c) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

### (d) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 3(g) (ii).

### (e) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made.

### (f) Share based payments

Equity based payments are recognized as an expense based on the fair value of the options rights as at the reporting date. The fair value of the options is estimated through the use of option valuation models which require inputs such as risk free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. These inputs to the model are driven by external market forces and are judgmental in nature and use of different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

## 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### (a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 - Group<br>Assets | Held for trading<br>KShs.'000 | Held to maturity<br>KShs.'000 | Loans and receivables<br>KShs.'000 | Available for sale<br>KShs.'000 | Other amortized cost<br>KShs.'000 | Total carrying amount<br>KShs.'000 | Level 1<br>KShs.'000 | Level 2<br>KShs.'000 | Level 3<br>KShs.'000 | Fair value<br>KShs.'000 |
| Financial assets | | | | | | | | | | |
| Cash and balances with Central Banks | - | - | 33,940,577 | - | - | 33,940,577 | - | - | - | - |
| Due from other banks | - | - | 10,402,010 | - | - | 10,402,010 | - | - | - | - |
| Government securities | 6,241,984 | 47,533,782 | - | 37,167,167 | - | 90,942,933 | 90,942,933 | - | | 90,942,933 |
| Investment in other securities | - | - | - | 2,053,183 | - | 2,053,183 | 2,053,183 | - | - | 2,053,183 |
| Loans and advances to customers | - | - | 227,721,781 | - | - | 227,721,781 | - | - | 228,089,376 | 228,089,376 |
| Clearing house | - | - | 789,203 | - | - | 789,203 | - | - | - | - |
| Total financial assets | 6,241,984 | 47,533,782 | 272,853,571 | 39,220,350 | - | 365,849,687 | 92,996,116 | | 228,089,376 | 321,085,492 |
| Liabilities | | | | | | | | | | |
| Due to other banks | - | - | - | - | 6,650,977 | 6,650,977 | - | - | - | - |
| Deposits from customers | - | - | - | - | 305,659,189 | 305,659,189 | - | - | - | - |
| Bills payable | - | - | - | - | 1,533,857 | 1,533,857 | - | - | - | - |
| Long term debt | - | - | - | - | 7,719,647 | 7,719,647 | - | - | 6,724,978 | 6,724,978 |
| Total liabilities assets | - | - | - | - | 321,563,670 | 321,563,670 | - | - | 6,724,978 | 6,724,978 |

# Notes to the Financial Statements *(Continued)*

**For the year ended 31 December 2013**

## 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Accounting classification and fair values (Continued)

| | | Carrying amount | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013 - Bank** | **Held for trading** | **Held to maturity** | **Loans and receivables** | **Available for sale** | **Other amortized cost** | **Total carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Fair value** |
| **Assets** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** |
| Cash and balances with Central Banks | - | - | 16,823,446 | - | - | 16,823,446 | - | - | - | - |
| Due from other banks | - | - | 5,222,915 | - | - | 5,222,915 | - | - | - | - |
| Government securities | 6,241,984 | 28,504,194 | - | 35,852,085 | - | 70,598,263 | 70,598,263 | - | - | 70,598,263 |
| Investment in other securities | - | - | - | 2,053,183 | - | 2,053,183 | 2,053,183 | - | - | 2,053,183 |
| Loans and advances to customers | - | - | 198,370,069 | - | - | 198,370,069 | - | - | 198,690,283 | 198,690,283 |
| Clearing house | - | - | 699,570 | - | - | 699,570 | - | - | - | - |
| Total financial assets | 6,241,984 | 28,504,194 | 221,116,000 | 37,905,268 | - | 293,767,446 | 72,651,446 | - | 198,690,283 | 271,341,729 |
| Financial liabilities | | | | | | | | - | | |
| Due to other banks | - | - | - | - | 5,516,617 | 5,516,617 | - | - | - | - |
| Deposits from customers | - | - | - | - | 237,212,782 | 237,212,782 | - | - | - | - |
| Bills payable | - | - | - | - | 1,288,642 | 1,288,642 | - | - | - | - |
| Long term debt | - | - | - | - | 7,073,182 | 7,073,182 | - | - | 6,724,978 | 6,724,978 |
| Total financial liabilities | - | - | - | - | 251,091,223 | 251,091,223 | - | - | 6,724,978 | 6,724,978 |

## 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

### (a) Accounting classification and fair values (Continued)

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013 - Group** | **Held for trading** | **Held maturity** | **Loans and receivables** | **Available for** | **Other amortized cost** | **Total carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Fair value** |
| **Assets** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** |
| Cash and balances with Central Banks | - | - | 36,419,912 | - | - | 36,419,912 | - | - | 36,419,912 | 36,419,912 |
| Due from other banks | - | - | 10,421,565 | - | - | 10,421,565 | - | - | 10,421,565 | 10,421,565 |
| Government securities | 2,923,263 | 70,451,164 | - | 13,618,250 | - | 86,992,677 | - | 86,992,677 | - | 86,992,677 |
| Investment in other securities | - | - | - | 2,298,627 | - | 2,298,627 | 2,298,627 | - | - | 2,298,627 |
| Loans and advances to customers | - | - | 211,664,226 | - | - | 211,664,226 | - | - | 211,664,226 | 212,005,900 |
| Clearing house | - | - | 1,107,088 | - | - | 1,107,088 | - | - | 1,107,088 | 1,107,088 |
| Total financial assets | 2,923,263 | 70,451,164 | 259,612,791 | 15,916,877 | - | 348,904,095 | 2,298,627 | 86,992,677 | 259,612,791 | 349,245,769 |
| Liabilities | | | | | | | | | | |
| Due to other banks | - | - | - | - | 9,333,589 | 9,333,589 | - | - | 9,333,589 | 9,333,589 |
| Deposits from customers | - | - | - | - | 288,037,367 | 288,037,367 | - | - | 288,037,367 | 288,037,367 |
| Bills payable | - | - | - | - | 888,337 | 888,337 | - | - | 888,337 | 888,337 |
| Long term debt | - | - | - | - | 8,923,312 | 8,923,312 | - | - | 8,923,312 | 8,923,312 |
| | - | - | - | - | 307,182,605 | 307,182,605 | - | - | 307,182,605 | 307,182,605 |

## 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

### (a) Accounting classification and fair values (Continued)

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013 - Group** | **Held for trading** | **Held maturity** | **Loans and receivables** | **Available for** | **Other amortized cost** | **Total carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Fair value** |
| **Assets** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** | **KShs.'000** |
| Cash and balances with Central Banks | - | - | 18,908,695 | - | - | 18,908,695 | - | - | 18,908,695 | 18,908,695 |
| Due from other banks | - | - | 4,491,511 | - | - | 4,491,511 | - | - | 4,491,511 | 4,491,511 |
| Government securities | 2,923,263 | 51,095,443 | - | 13,618,250 | - | 67,636,956 | - | 67,636,956 | - | 67,636,956 |
| Investment in other securities | - | - | - | 2,298,627 | - | 2,298,627 | 2,298,627 | - | - | 2,298,627 |
| Loans and advances to customers | - | - | 187,022,664 | - | - | 187,022,664 | - | - | 187,324,561 | 187,324,561 |
| Clearing house | - | - | 914,910 | - | - | 914,910 | - | - | 914,910 | 914,910 |
| Total financial assets | 2,923,263 | 51,095,443 | 211,337,780 | 15,916,877 | - | 281,273,363 | 2,298,627 | 67,636,956 | 211,639,677 | 281,575,260 |
| Liabilities | | | | | | | | | | |
| Due to other banks | - | - | - | - | 8,261,878 | 8,261,878 | - | - | 8,261,878 | 8,261,878 |
| Deposits from customers | - | - | - | - | 223,493,278 | 223,493,278 | - | - | 223,493,278 | 223,493,278 |
| Bills payable | - | - | - | - | 842,277 | 842,277 | - | - | 842,277 | 842,277 |
| Long term debt | - | - | - | - | 8,615,000 | 8,615,000 | - | - | 8,615,000 | 8,615,000 |
| | - | - | - | - | 241,212,433 | 241,212,433 | - | - | 241,212,433 | 241,212,433 |

## 7. FINANCIAL ASSETS AND LIABILITIES (continued)

### (a) Accounting classification and fair values (Continued)

The Group has adopted IFRS 13 Fair Value Measurement with effect from 1 January 2013. As a result, the Group has adopted a new definition of fair value as outlined below. The change had no impact on the measurements of the Group's assets and liabilities. However, the group has included new disclosures in the financial statements which are required under IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 1,934.4 million (2012: KShs 1,849.3 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

## 7. FINANCIAL ASSETS AND LIABILITIES (continued)

### (a) Impairment losses on loans and advances (continued)

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

(a) Valuation hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

a) Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

b) Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

c) Level 3: Techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

The fair value hierarchy of financial assets and liabilities has been disclosed in note 7(a).

## 8. SEGMENT REPORTING

### Reportable segments

The Group's main business comprises of the following reportable segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.

Mortgages – incorporating the provision of mortgage finance.

Treasury – operates the Group's funds management activities

Other Group's operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

Income Statement

| For the year ended 31 December 2013 | Corporate banking KShs.'000 | Retail banking KShs.'000 | Treasury KShs.'000 | Mortgages KShs.'000 | Other KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|
| Net interest income | 10,254,930 | 9,417,289 | 8,241,779 | 5,067,160 | 3,128 | 32,984,286 |
| Net fees and commission income | 4,090,374 | 5,608,198 | - | 61,938 | 172,238 | 9,932,748 |
| Other income | - | 123,413 | 3,942,186 | - | 879,845 | 4,945,444 |
| Operating expenses | (1,996,273) | (11,296,736) | (490,929) | (339,466) | (13,615,315) | (27,738,719) |
| Profit before tax | 12,349,031 | 3,852,164 | 11,693,036 | 4,789,632 | (12,560,104) | 20,123,759 |
| For the year ended 31 December 2012 | | | | | | |
| Net interest income | 8,589,357 | 9,763,960 | 7,239,957 | 5,042,958 | - | 30,636,232 |
| Net fees and commission income | 2,408,767 | 6,599,035 | - | 40,928 | 25,082 | 9,073,812 |
| Other income | 602 | 89,632 | 3,688,137 | 466 | 570,457 | 4,349,294 |
| Operating expenses | (1,374,208) | (11,848,669) | (496,917) | (213,251) | (12,918,150) | (26,851,195) |
| Profit before tax | 9,624,518 | 4,603,958 | 10,431,177 | 4,871,101 | (12,322,611) | 17,208,143 |

## 8. SEGMENT REPORTING (continued)

### Reportable segments (continued)
### Statement of Financial Position

| For the year ended 31 December 2013 | Corporate banking KShs.'000 | Retail banking KShs.'000 | Treasury KShs.'000 | Mortgages KShs.'000 | Other KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|
| Short term funds | - | 24,076,482 | 112,990,895 | - | 271,326 | 137,338,703 |
| Loans and advances | 115,929,962 | 75,599,091 | - | 36,192,728 | - | 227,721,781 |
| Other assets | 107,565 | 1,103,278 | 158,488 | 77,281 | 24,344,483 | 25,791,095 |
| Total assets | 116,037,527 | 100,778,851 | 113,149,383 | 36,270,009 | 24,615,809 | 390,851,579 |
| Customer deposits | 136,621,103 | 164,170,823 | 2,736,887 | 2,130,376 | - | 305,659,189 |
| Borrowed funds | - | - | 14,370,624 | - | - | 14,370,624 |
| Other liabilities | 577 | 148,475 | 82,399 | - | 7,235,348 | 7,466,799 |
| Shareholders' funds | - | - | - | - | 63,354,967 | 63,354,967 |
| Total liabilities and shareholders' funds | 136,621,680 | 164,319,298 | 17,189,910 | 2,130,376 | 70,590,315 | 390,851,579 |
| For the year ended 31 December 2012 | | | | | | |
| Short term funds | - | 14,576,889 | 121,555,892 | - | - | 136,132,781 |
| Loans | 111,021,191 | 67,657,544 | - | 32,985,491 | - | 211,664,226 |
| Other assets | 106,230 | 3,186,472 | 146,143 | 72,714 | 16,710,219 | 20,221,778 |
| Total assets | 111,127,421 | 85,420,905 | 121,702,035 | 33,058,205 | 16,710,219 | 368,018,785 |
| Customer deposits | 136,421,309 | 149,875,259 | - | 1,740,799 | - | 288,037,367 |
| Borrowed funds | - | - | 18,256,901 | - | - | 18,256,901 |
| Other liabilities | 58,013 | 561,488 | 66,315 | 9,922 | 6,733,720 | 7,429,458 |
| Shareholders' funds | - | - | - | - | 54,295,059 | 54,295,059 |
| Total liabilities and shareholders' funds | 136,479,322 | 150,436,747 | 18,323,216 | 1,750,721 | 61,028,779 | 368,018,785 |

### Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

**For the year ended 31 December 2013**

**8. SEGMENT REPORTING (continued)**

Geographical information (continued)

Income Statement

| For the year ended 31 December 2013 | Kenya KShs.'000 | Tanzania KShs.'000 | South Sudan KShs.'000 | Uganda KShs.'000 | Rwanda KShs.'000 | Burundi KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|
| Net interest income | 29,003,717 | 750,873 | 1,598,148 | 813,792 | 678,621 | 139,136 | 32,984,286 |
| Net fees and commission income | 6,684,754 | 444,920 | 1,999,646 | 408,921 | 333,677 | 60,830 | 9,932,748 |
| Other income | 2,786,375 | 191,796 | 1,304,675 | 314,819 | 289,860 | 57,919 | 4,945,444 |
| Operating expenses | (20,679,775) | (1,288,923) | (2,958,852) | (1,270,755) | (1,288,406) | (252,008) | (27,738,719) |
| Profit before tax | 17,795,071 | 98,666 | 1,943,617 | 266,777 | 13,752 | 5,877 | 20,123,759 |
| For the year ended 31 December 2012 | | | | | | | |
| Net interest income | 27,794,164 | 678,037 | 813,984 | 597,676 | 707,144 | 45,227 | 30,636,232 |
| Net fees and commission income | 6,305,111 | 438,560 | 1,614,558 | 393,741 | 302,786 | 19,056 | 9,073,812 |
| Other income | 2,381,888 | 14,178 | 1,559,372 | 220,848 | 121,001 | 52,007 | 4,349,294 |
| Operating expenses | (20,709,051) | (991,769) | (2,635,917) | (1,157,819) | (1,181,179) | (175,460) | (26,851,195) |
| Profit before tax | 15,772,112 | 139,006 | 1,351,997 | 54,446 | (50,248) | (59,170) | 17,208,143 |

**For the year ended 31 December 2013**

**8. SEGMENT REPORTING (continued)**

Reportable segments (continued)

Statement of financial position

| For the year ended 31 December 2013 | Kenya KShs.'000 | Tanzania KShs.'000 | South Sudan KShs.'000 | Uganda KShs.'000 | Rwanda KShs.'000 | Burundi KShs.'000 | Group Elimination KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and Short term funds | 94,697,806 | 5,156,049 | 32,201,906 | 5,846,824 | 3,407,376 | 1,608,958 | (5,851,543) | 137,067,376 |
| Loans and advances | 198,370,069 | 8,356,322 | 7,899,814 | 6,418,519 | 6,146,380 | 530,677 | - | 227,721,781 |
| Other assets | 29,616,979 | 539,225 | 3,456,380 | 1,085,046 | 807,654 | 221,391 | (9,664,253) | 26,062,422 |
| Total assets | 322,684,854 | 14,051,596 | 43,558,100 | 13,350,389 | 10,361,410 | 2,361,026 | (15,515,796) | 390,851,579 |
| Customer deposits | 237,212,782 | 10,614,456 | 36,989,571 | 11,544,346 | 8,165,013 | 1,314,245 | (181,224) | 305,659,189 |
| Borrowed funds | 12,589,798 | 1,405,439 | 312,222 | 17,119 | 774,507 | 197,144 | (925,604) | 14,370,625 |
| Other liabilities | 11,119,235 | 250,538 | 2,076,817 | (271,129) | 221,892 | 23,803 | (5,954,359) | 7,466,800 |
| Shareholders' funds | 61,763,039 | 1,781,163 | 4,179,490 | 2,060,053 | 1,199,998 | 825,834 | (8,454,609) | 63,354,967 |
| Total liabilities and shareholders' funds | 322,684,854 | 14,051,596 | 43,558,100 | 13,350,389 | 10,361,410 | 2,361,026 | (15,515,796) | 390,851,579 |
| 31 December 2012 | | | | | | | | |
| Cash and Short term funds | 93,547,933 | 5,430,948 | 36,095,431 | 3,993,194 | 2,583,743 | 1,210,178 | (6,728,646) | 136,132,781 |
| Loans and advances | 187,022,664 | 7,803,394 | 5,575,041 | 5,203,690 | 5,791,492 | 267,945 | - | 211,664,226 |
| Other assets | 24,181,210 | 497,593 | 2,324,979 | 945,541 | 1,273,020 | 224,278 | (9,224,843) | 20,221,778 |
| Total assets | 304,751,807 | 13,731,935 | 43,995,451 | 10,142,425 | 9,648,255 | 1,702,401 | (15,953,489) | 368,018,785 |
| Customer deposits | 223,493,278 | 9,801,854 | 38,583,455 | 8,040,729 | 7,850,333 | 579,894 | (312,176) | 288,037,367 |
| Borrowed funds | 16,876,878 | 1,986,532 | 134,594 | 128,620 | 308,313 | 242,991 | (1,421,027) | 18,256,901 |
| Other liabilities | 10,499,926 | 281,417 | 1,925,027 | 263,284 | 210,358 | 307,854 | (6,058,408) | 7,429,458 |
| Shareholders' funds | 53,881,725 | 1,662,132 | 3,352,375 | 1,709,792 | 1,279,251 | 571,662 | (8,161,878) | 54,295,059 |
| Total liabilities and shareholders' funds | 304,751,807 | 13,731,935 | 43,995,451 | 10,142,425 | 9,648,255 | 1,702,401 | (15,953,489) | 368,018,785 |

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| **9. INTEREST INCOME AND EXPENSE** | | | | |
| **INTEREST INCOME** | | | | |
| Interest on loans and advances | 32,457,329 | 33,973,437 | 28,311,468 | 30,763,441 |
| Interest on investment in Government securities | 8,327,336 | 7,648,656 | 7,355,172 | 7,109,907 |
| Interest on impaired loans and advances | 256,080 | 652,157 | 61,488 | 471,695 |
| Interest on placements and bank balances | 572,654 | 807,968 | 360,946 | 553,257 |
| | 41,613,399 | 43,082,218 | 36,089,074 | 38,898,300 |
| **INTEREST EXPENSE** | | | | |
| Interest on deposits | 7,871,928 | 11,229,319 | 6,447,162 | 10,107,639 |
| Interest on borrowed funds | 757,185 | 1,216,667 | 641,321 | 996,501 |
| | 8,629,113 | 12,445,986 | 7,088,483 | 11,104,140 |
| NET INTEREST INCOME | 32,984,286 | 30,636,232 | 29,000,591 | 27,794,160 |
| **10. FEES AND COMMISSIONS INCOME** | | | | |
| Fee income | 4,684,093 | 3,718,064 | 3,845,358 | 2,883,552 |
| Commission income | 5,816,744 | 5,894,921 | 3,336,425 | 3,920,941 |
| | 10,500,837 | 9,612,985 | 7,181,783 | 6,804,493 |
| Commission expense | (568,089) | (539,173) | (553,565) | (524,460) |
| | 9,932,748 | 9,073,812 | 6,628,218 | 6,280,033 |
| **11. FOREIGN EXCHANGE GAINS** | | | | |
| Foreign currency dealings | 3,275,662 | 3,447,824 | 1,440,928 | 1,431,368 |
| Translation gains | 666,524 | 240,313 | 243,647 | 250,616 |
| | 3,942,186 | 3,688,137 | 1,684,575 | 1,681,984 |
| **12. DIVIDEND INCOME** | | | | |
| Available for sale investments | 12,009 | 13,709 | 12,009 | 13,709 |
| | 12,009 | 13,709 | 12,009 | 13,709 |
| **13. OTHER OPERATING INCOME** | | | | |
| Rent income | 165,445 | 153,205 | 153,495 | 148,186 |
| Profit on disposal of property and equipment | 29,847 | 50,685 | 28,849 | 50,138 |
| Miscellaneous income | 795,957 | 443,558 | 700,168 | 439,334 |
| | 991,249 | 647,448 | 882,512 | 637,658 |
| **14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS** | | | | |
| Additional specific allowance (Note 26(b) | 2,585,930 | 3,232,752 | 1,490,466 | 2,558,470 |
| Additional collective allowance (Note 26(c) | 320,045 | 523,890 | 292,380 | 561,715 |
| Bad debts recovered during the year (Note (26)b) | (1,910,332) | (1,658,607) | (1,535,609) | (1,509,475) |
| | 995,643 | 2,098,035 | 247,237 | 1,610,710 |

## 15. PERSONNEL COSTS

| INTEREST INCOME | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Salaries and wages | 9,307,687 | 8,285,401 | 7,387,889 | 6,789,877 |
| Medical expenses | 517,674 | 495,322 | 440,862 | 433,036 |
| Pension costs - Defined benefit scheme | 158,077 | 78,552 | 82,359 | 76,065 |
| Pension costs - Defined contribution scheme | 563,481 | 585,168 | 475,463 | 439,891 |
| Share based payments expense | 245,447 | 235,636 | 245,447 | 235,636 |
| Restructuring costs | 1,170,675 | 472 | 1,170,676 | 472 |
| Staff bonus costs | 1,027,839 | 1,865,051 | 912,926 | 1,608,624 |
| Other | 479,020 | 315,594 | 361,545 | 197,444 |
| | 13,469,900 | 11,861,196 | 11,077,167 | 9,781,045 |

The number of employees of the Group as at 31 December 2013 was 6,489 (31 December 2012 – 5,162).

## 16. DEPRECIATION AND AMORTIZATION

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Depreciation of property and equipment (Note 28) | 2,098,691 | 1,755,273 | 1,270,770 | 1,249,952 |
| Amortization of intangible assets (Note 29) | 578,095 | 538,926 | 560,605 | 526,680 |
| Amortization of prepaid operating lease rentals ( Note 30) | 2,534 | 860 | 2,498 | 825 |
| | 2,679,320 | 2,295,059 | 1,833,873 | 1,777,457 |

## 17 OTHER OPERATING COSTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Directors' emoluments - As directors | 101,965 | 84,822 | 40,364 | 41,176 |
| - As executives | 95,430 | 86,736 | 95,430 | 86,737 |
| Auditors' remuneration | 29,000 | 27,250 | 14,000 | 13,200 |
| Advertising costs | 683,274 | 561,251 | 536,201 | 446,492 |
| Software license renewal fees | 543,385 | 404,410 | 466,169 | 377,560 |
| Computer hardware maintenance | 436,043 | 395,224 | 398,889 | 344,080 |
| Guard services | 617,985 | 566,859 | 483,255 | 459,181 |
| Depositor's protection fund premiums | 359,104 | 311,757 | 325,138 | 279,936 |
| Staff development cost | 279,719 | 339,805 | 236,954 | 312,471 |
| Corporate social responsibility | 176,029 | 155,312 | 172,122 | 151,338 |
| Business stationery expenses | 317,239 | 303,823 | 228,582 | 227,519 |
| Staff travelling expenses | 440,862 | 456,044 | 244,375 | 302,095 |
| Communication expenses | 423,670 | 483,032 | 247,456 | 331,257 |
| Consultancy services | 303,490 | 227,869 | 278,858 | 216,429 |
| Other administrative expenses | 5,786,661 | 6,192,711 | 3,535,644 | 3,892,970 |
| | 10,593,856 | 10,596,905 | 7,303,437 | 7,482,441 |
| Profit before income tax is arrived at after charging/(crediting): | | | | |
| Depreciation | 2,098,691 | 1,755,273 | 1,270,770 | 1,249,952 |
| Amortisation of intangible assets | 578,095 | 538,926 | 560,605 | 526,680 |
| Directors' emoluments: - Fees | 101,965 | 84,822 | 40,364 | 41,176 |
| - Other | 95,430 | 86,736 | 95,430 | 86,736 |
| Auditors' remuneration | 29,000 | 27,250 | 14,000 | 13,200 |
| Amortisation of prepaid operating lease rentals | 2,534 | 860 | 2,497 | 825 |
| Net profit on sale of property and equipment | 29,847 | 50,685 | 29,847 | 50,138 |

The Group neither has a potential tax liability out of payment of dividends nor material tax cases pending resolution with Taxation Authorities.

## 18. INCOME TAX

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| **(a) Income statement** | | | | |
| Current tax | 6,520,863 | 6,296,080 | 6,040,597 | 5,993,747 |
| Deferred tax charge/(credit) (note 32) | (738,486) | (1,268,179) | (721,080) | (1,304,406) |
| (Over)/under provision in the previous years- | - | (23,289) | - | (23,289) |
| | 5,782,377 | 5,004,612 | 5,319,517 | 4,666,052 |
| Accounting profit before tax | 20,123,759 | 17,208,143 | 17,746,191 | 15,755,891 |
| Tax calculated using applicable tax rates based on respective Income Tax Laws | 5,843,664 | 5,041,385 | 5,323,858 | 4,726,767 |
| Effects of non-allowable expenses | 103,206 | 283,205 | 168,569 | 209,846 |
| (Over)/Under provisions in previous years | - | (23,289) | - | (23,289) |
| Effects of non-taxable income | (164,493) | (296,689) | (172,910) | (247,272) |
| | 5,782,377 | 5,004,612 | 5,319,517 | 4,666,052 |
| **(b) Statement of financial position** | | | | |
| At 1 January | (1,802,488) | (98,815) | (1,713,284) | 9,418 |
| Tax paid during the year | 8,883,994 | 4,597,464 | 8,433,099 | 4,271,045 |
| Tax charge for the year | (6,520,863) | (6,296,080) | (6,040,597) | (5,993,747) |
| Translation difference | - | (5,057) | - | - |
| At 31 December | 560,643 | (1,802,488) | 679,218 | (1,713,284) |
| Comprising: | | | | |
| Tax recoverable | 740,020 | 10,598 | 679,218 | - |
| Tax payable | (179,377) | (1,813,086) | - | (1,713,284) |
| | 560,643 | (1,802,488) | 679,218 | (1,713,284) |

The Group neither has a potential tax liability out of payment of dividends nor material tax cases pending resolution with taxation authorities.

## 19. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 14,341 million (2012: KShs 12,204 million) and on the weighted average number of ordinary shares during the year of 2,974 million (2012: 2,969 million shares).

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Basic and diluted earnings per share | 4.82 | 4.11 | 4.18 | 3.74 |

## 20. CASH AND BALANCES WITH CENTRAL BANKS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Cash on hand | 15,759,310 | 14,941,781 | 8,649,573 | 7,486,203 |
| Balances with Central Banks: | | | | |
| Cash reserve ratio | 11,024,058 | 13,546,178 | 8,173,873 | 11,422,492 |
| Other current accounts | 7,157,209 | 7,931,953 | - | - |
| | 33,940,577 | 36,419,912 | 16,823,446 | 18,908,695 |

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

## 21. DUE FROM BANKS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Balances in nostro accounts* | 9,342,372 | 6,287,076 | 5,166,173 | 4,491,511 |
| Placements with other banks | 1,059,638 | 4,134,489 | 56,742 | - |
| | 10,402,010 | 10,421,565 | 5,222,915 | 4,491,511 |

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2013 was 8.3% (2012 - 11.3%).

*Nostro accounts are accounts held in other banks in a foreign country.

## 22. HELD FOR TRADING INVESTMENTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Treasury bonds | 6,241,984 | 2,923,263 | 6,241,984 | 2,923,263 |

Treasury bonds are debt securities issued by the Government of the Republic of Kenya and acquired by the bank for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2013 was 8.9% (31 December 2012 - 12.5%)

## 23. AVAILABLE FOR SALE INVESTMENTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Quoted investments | 58,025 | 444,562 | 58,025 | 444,562 |
| Unquoted equity investments | 64,549 | 4,765 | 64,549 | 4,765 |
| Corporate bonds | 1,935,375 | 1,849,300 | 1,935,375 | 1,849,300 |
| Treasury bonds | 37,162,401 | 13,618,250 | 35,847,319 | 13,618,250 |
| | 39,220,350 | 15,916,877 | 37,905,268 | 15,916,877 |

## 24. CLEARING HOUSE

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Un-cleared effects | 789,203 | 1,107,088 | 699,570 | 914,910 |

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

## 25. OTHER ASSETS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Other receivables | 6,240,038 | 2,694,747 | 4,721,444 | 1,937,074 |
| Prepayments | 3,709,842 | 3,223,268 | 2,987,532 | 2,582,470 |
| | 9,949,880 | 5,918,015 | 7,708,976 | 4,519,544 |

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

## 26. LOANS AND ADVANCES TO CUSTOMERS

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| **(a) Loans and advances to customers** | | | | |
| Gross loans and advances to customers | 236,610,005 | 220,549,569 | 205,459,820 | 194,666,631 |
| Specific provisions for impairment (Note 26(b)) | (6,518,740) | (6,835,904) | (4,970,039) | (5,816,635) |
| Collective impairment for impairment (Note 26(c)) | (2,369,484) | (2,049,439) | (2,119,712) | (1,827,332) |
| | 227,721,781 | 211,664,226 | 198,370,069 | 187,022,664 |
| **(b) Specific allowance for impairment loss** | | | | |
| At 1 January | 6,835,904 | 6,466,159 | 5,816,636 | 5,724,058 |
| Allowance made during the year (Note 14) | 2,585,930 | 3,232,752 | 1,490,467 | 2,558,470 |
| Allowance recovered/un required during the year (Note 14) | (1,910,332) | (1,658,607) | (1,535,609) | (1,509,475) |
| Write downs/write offs during the year | (992,762) | (1,204,400) | (801,455) | (956,418) |
| At 31 December | 6,518,740 | 6,835,904 | 4,970,039 | 5,816,635 |
| **(c) Collective allowance for impairment loss** | | | | |
| At 1 January | 2,049,439 | 1,525,549 | 1,827,332 | 1,265,617 |
| Allowance made during the year (Note 14) | 320,045 | 523,890 | 292,380 | 561,715 |
| At 31 December | 2,369,484 | 2,049,439 | 2,119,712 | 1,827,332 |
| **(d) Maturity analysis of gross loans and advances to customers:** | | | | |
| Maturing within 1 month | 12,562,345 | 53,771,370 | 10,446,348 | 49,054,220 |
| Maturing after 1 month, but before 3 months | 18,812,636 | 4,849,896 | 17,577,802 | 3,469,730 |
| Maturing after 3 months, but within 1 year | 44,440,079 | 12,706,910 | 39,975,570 | 9,566,384 |
| Maturing after 1 year, but within 5 years | 88,303,877 | 63,164,130 | 72,558,301 | 48,792,599 |
| Maturing after 5 years | 72,491,069 | 86,057,263 | 64,901,799 | 83,783,698 |
| | 236,610,006 | 220,549,569 | 205,459,820 | 194,666,631 |
| **(e) Sectorial analysis of gross loans and advances to customers:** | | | | |
| Private sector and individuals | 227,784,132 | 210,923,050 | 196,633,947 | 186,816,701 |
| Government and parastatals | 8,825,873 | 9,626,519 | 8,825,873 | 7,849,930 |
| | 236,610,005 | 220,549,569 | 205,459,820 | 194,666,631 |

The weighted average effective interest rate on loans and advances as at 31 December 2013 was 18.4% (2012: 18.5%).

### 26. LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December, the aging analysis of past due but not impaired loans and advances is as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Less than 60 days | 32,407,572 | 12,979,160 | 30,927,283 | 10,725,247 |
| Between 60 – 120 days | 2,825,620 | 2,219,746 | 2,130,000 | 1,346,269 |
| Greater than 120 days | 1,254,356 | 5,095,863 | - | - |
| | 36,487,548 | 20,294,769 | 33,057,283 | 12,071,516 |

### 27. HELD TO MATURITY INVESTMENTS

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Treasury bills | | | | |
| Maturing within 1 month | 1,134,934 | 1,189,882 | 500,000 | 684,232 |
| Maturing between 1-3 months | 1,072,550 | 4,312,260 | - | 3,750,000 |
| Maturing between 3-6 months | 7,081,124 | 9,647,653 | - | 8,500,000 |
| Maturing between 6-12 months | 9,096,466 | 15,823,122 | - | - |
| | 18,385,074 | 30,972,917 | 500,000 | 12,934,232 |
| Treasury bonds | | | | |
| Maturing within 1 month | - | 2,741,811 | - | 2,741,811 |
| Maturing between 1 and 3 months | 273,257 | 6,468,640 | 273,257 | 6,370,000 |
| Maturing between 3 and 6 months | 1,100,000 | 1,768,833 | 1,100,000 | 1,550,000 |
| Maturing between 6 and 12 months | 3,150,307 | 1,998,284 | 2,743,400 | 1,536,600 |
| Maturing between 1and 5 years | 13,313,607 | 10,927,879 | 12,576,000 | 10,390,000 |
| Maturing after 5 years | 11,311,537 | 15,572,800 | 11,311,537 | 15,572,800 |
| | 29,148,708 | 39,478,247 | 28,004,194 | 38,161,211 |
| TOTAL INVESTMENT IN GOVERNMENT SECURITIES | 47,533,782 | 70,451,164 | 28,504,194 | 51,095,443 |
| Maturing as follows:- | | | | |
| Maturing within 1 month | 1,134,934 | 3,931,693 | 500,000 | 3,426,043 |
| Maturing between 1-3 months | 1,345,807 | 10,780,900 | 273,257 | 10,120,000 |
| Maturing between 3-12 months | 20,427,897 | 29,237,892 | 3,843,400 | 11,586,600 |
| Maturing between 1-5 years | 13,313,607 | 10,927,879 | 12,576,000 | 10,390,000 |
| Maturing after 5 years | 11,311,537 | 15,572,800 | 11,311,537 | 15,572,800 |
| | 47,533,782 | 70,451,164 | 28,504,194 | 51,095,443 |

Treasury bills and bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi and the Republic of South Sudan. The bills and bonds are categorized as amounts held to maturity and carried at amortized cost.

The weighted average effective interest rates on Government securities as at 31 December 2013, was 8.9% (31 December 2012 - 12.5%).

## 28. PROPERTY AND EQUIPMENT CUSTOMERS (continued)

| | Freehold and Leasehold Premises KShs.'000 | Leasehold Improvements KShs.'000 | Motor vehicles, furniture and Equipment KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|
| a) GROUP | | | | |
| As at 31 December 2013: | | | | |
| COST: | | | | |
| At 1 January 2013 | 1,841,276 | 3,035,008 | 13,029,634 | 17,905,918 |
| Additions | - | 290,747 | 1,452,239 | 1,742,986 |
| Disposals | (31,289) | - | (498,605) | (529,894) |
| At 31 December 2013 | 1,809,987 | 3,325,755 | 13,983,268 | 19,119,010 |
| DEPRECIATION | | | | |
| At 1 January 2013 | 292,159 | 803,009 | 7,915,182 | 9,010,350 |
| Charge for the year | 23,785 | 445,485 | 1,629,421 | 2,098,691 |
| Disposals | (9,375) | - | ( 465,492) | (474,867) |
| At 31 December 2013 | 306,569 | 1,248,494 | 9,079,111 | 10,634,174 |
| CARRYING AMOUNT | | | | |
| At 31 December 2013 | 1,503,418 | 2,077,261 | 4,904,157 | 8,484,836 |
| As at 31 December 2012: | | | | |
| COST: | | | | |
| At 1 January 2012-Restated | 1,602,833 | 2,202,430 | 11,672,823 | 15,478,086 |
| Additions | 238,400 | 832,602 | 1,594,358 | 2,665,360 |
| Reclassification | 928 | - | (928) | - |
| Disposals | (885) | (24) | (236,620) | (237,529) |
| At 31 December 2012 | 1,841,276 | 3,035,008 | 13,029,633 | 17,905,917 |
| DEPRECIATION | | | | |
| At 1 January 2012-Restated | 275,512 | 566,020 | 6,618,959 | 7,460,491 |
| Charge for the year | 16,821 | 236,984 | 1,501,468 | 1,755,273 |
| Reclassification | 85 | - | (85) | - |
| Disposals | (259) | (1) | (205,160) | (205,420) |
| At 31 December 2012 | 292,159 | 803,003 | 7,915,182 | 9,010,344 |
| CARRYING AMOUNT | | | | |
| At 31 December 2012 | 1,549,117 | 2,232,005 | 5,114,451 | 8,895,573 |

## 28. PROPERTY AND EQUIPMENT CUSTOMERS (continued)

| | Freehold and Leasehold Premises KShs.'000 | Leasehold Improvements KShs.'000 | Motor vehicles, furniture and Equipment KShs.'000 | Total KShs.'000 |
|---|---|---|---|---|
| b) BANK | | | | |
| COST: | | | | |
| At 1 January 2013 | 1,782,457 | 77,308 | 11,225,781 | 13,085,546 |
| Additions | - | - | 1,065,935 | 1,065,935 |
| Disposals | (31,289) | - | (481,948) | (513,237) |
| At 31 December 2013 | 1,751,168 | 77,308 | 11,809,768 | 13,638,244 |
| DEPRECIATION | | | | |
| At 1 January 2013 | 275,987 | 75,821 | 7,115,917 | 7,467,725 |
| Charge for the year | 23,001 | 1,487 | 1,246,282 | 1,270,770 |
| Disposals | (9,375) | - | (454,309) | (463,684) |
| At 31 December 2013 | 289,613 | 77,308 | 7,907,890 | 8,274,811 |
| CARRYING AMOUNT | | | | |
| At 31 December 2013 | 1,461,555 | - | 3,901,878 | 5,363,433 |
| As at 31 December 2012: | | | | |
| COST: | | | | |
| At 1 January 2012 | 1,543,979 | 77,308 | 10,422,700 | 12,043,987 |
| Additions | 238,400 | - | 1,032,720 | 1,271,120 |
| Reclassification | 928 | - | (928) | - |
| Disposals | (850) | - | (228,710) | (229,560) |
| At 31 December 2012 | 1,782,457 | 77,308 | 11,225,782 | 13,085,547 |
| DEPRECIATION | | | | |
| At 1 January 2012 | 260,135 | 75,821 | 6,083,266 | 6,419,222 |
| Charge for the year | 16,026 | - | 1,233,926 | 1,249,952 |
| Reclassification | 85 | - | (85) | - |
| Disposals | (259) | - | (201,191) | (201,450) |
| At 31 December 2012 | 275,987 | 75,821 | 7,115,916 | 7,467,724 |
| CARRYING AMOUNT | | | | |
| At 31 December 2012 | 1,506,470 | 1,487 | 4,109,866 | 5,617,823 |

## 29. INTANGIBLE ASSETS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013<br>KShs.'000 | 2012<br>KShs.'000 | 2013<br>KShs.'000 | 2012<br>KShs.'000 |
| COST | | | | |
| At 1 January | 3,324,165 | 3,127,978 | 3,265,083 | 3,074,065 |
| Additions | 807,330 | 196,187 | 753,938 | 191,018 |
| At 31 December | 4,131,495 | 3,324,165 | 4,019,021 | 3,265,083 |
| AMORTISATION | | | | |
| At 1 January | 2,150,220 | 1,611,294 | 2,124,151 | 1,597,471 |
| Amortization for the year | 578,095 | 538,926 | 560,605 | 526,680 |
| At 31 December | 2,728,315 | 2,150,220 | 2,684,756 | 2,124,151 |
| CARRYING AMOUNT | | | | |
| At 31 December | 1,403,180 | 1,173,945 | 1,334,265 | 1,140,932 |

The intangible assets are in respect of computer software purchase costs.

## 30. PREPAID OPERATING LEASE RENTALS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013<br>KShs.'000 | 2012<br>KShs.'000 | 2013<br>KShs.'000 | 2012<br>KShs.'000 |
| COST | | | | |
| At 1 January | 225,800 | 225,800 | 219,575 | 219,574 |
| Disposal | (2,765) | - | - | - |
| At 31 December | 223,035 | 225,800 | 219,575 | 219,574 |
| AMORTISATION | | | | |
| At 1 January | 78,859 | 77,999 | 77,581 | 76,756 |
| Charge for the year | 2,534 | 860 | 2,498 | 825 |
| At 31 December | 81,393 | 78,859 | 80,079 | 77,581 |
| CARRYING AMOUNT | | | | |
| At 31 December | 141,642 | 146,941 | 139,496 | 141,993 |

## 31. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

| **Investments in subsidiaries:** | | **Beneficial** | **2013 KShs.'000** | **2012 KShs.'000** |
|---|---|---|---|---|
| Incorporated in Kenya: | | ownership | | |
| Company | Activity | % | | |
| Kenya Commercial Finance Co. Limited | Dormant | 100 | 150,000 | 150,000 |
| Savings & Loan Kenya Limited | Dormant | 100 | 500,000 | 500,000 |
| KCB Foundation | Corporate Social Responsibility | - | - | - |
| Kenya Commercial Bank Nominees Limited | Nominee Shareholders | 100 | - | - |
| Kencom House Limited | Property Ownership & Management | 100 | 748,645 | 748,645 |
| KCB Insurance Agency Limited | Insurance Brokerage | 100 | 100 | 100 |
| Investment in associates: | | | | |
| United Finance Limited | Dormant | 45 | 125 | 125 |
| Incorporated outside Kenya: | | | | |
| KCB Bank Tanzania Limited | Commercial Banking | 100 | 2,035,587 | 1,985,445 |
| KCB Bank South Sudan Limited | Conventional Banking | 100 | 1,025,649 | 1,025,649 |
| KCB Bank Rwanda Limited | Commercial Banking | 100 | 1,746,908 | 1,720,681 |
| KCB Bank Burundi Limited | Commercial Banking | 100 | 936,517 | 670,000 |
| KCB Bank Uganda Limited | Commercial banking | 100 | 2,683,986 | 2,683,984 |
| | | | 9,827,517 | 9,484,629 |

| Movement in investment in subsidiaries | **2013 KShs.'000** | **2012 KShs.'000** |
|---|---|---|
| Balance at 1 January 2013 | 9,484,629 | 8,624,529 |
| Additional investment in KCB Bank Tanzania Limited | 50,141 | 190,000 |
| Additional investment in KCB Bank Burundi Limited | 266,517 | 670,000 |
| Initial investment in KCB Insurance Agency Limited | - | 100 |
| Additional investment in KCB Bank Rwanda Limited | 26,230 | - |
| Total additional investment in subsidiaries in 2013 | 342,888 | 860,100 |
| Balance at 31 December 2013 | 9,827,517 | 9,484,629 |

## 32. DEFERRED TAX

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| At 1 January | 2,330,118 | 1,055,476 | 1,934,023 | 606,328 |
| Restatement – Retirement Benefit Scheme | (409,500) | (52,200) | (409,500) | (52,200) |
| At 1 January – As restated | 1,920,618 | 1,003,276 | 1,524,523 | 554,128 |
| Credit/(charge) for the year | 738,486 | 1,268,179 | 721,080 | 1,304,406 |
| Over provision previous year | - | 23,289 | - | 23,289 |
| Retirement Benefit Scheme – through equity (restated) | (218,100) | (357,300) | (218,100) | (357,300) |
| Translation difference | 4,330 | (16,826) | - | - |
| At 31 December | 2,445,334 | 1,920,618 | 2,027,503 | 1,524,523 |
| The net deferred tax asset is attributable to the following items: | | | | |
| Depreciation over tax allowances | (34,402) | (116,765) | 151,500 | 54 |
| Provisions | 2,566,524 | 1,972,672 | 2,503,603 | 1,933,969 |
| Pension remeasurement | (627,600) | (409,500) | (627,600) | (409,500) |
| Tax losses carried forward | 540,812 | 474,211 | - | - |
| | 2,445,334 | 1,920,618 | 2,027,503 | 1,524,523 |
| Comprising: | | | | |
| Deferred tax asset | 2,445,334 | 1,920,618 | 2,027,503 | 1,524,523 |

## 33. DUE TO OTHER BANKS

| | GROUP 2013 | GROUP 2012 | BANK 2013 | BANK 2012 |
|---|---|---|---|---|
| Deposits and balances from other banks | 6,650,977 | 9,333,589 | 5,516,617 | 8,261,878 |
| Payable within 1 month | 1,244,812 | 5,952,182 | - | 6,321,384 |
| Payable after 1 month, but within 3 months | 5,406,165 | 2,593,307 | 5,516,617 | 1,725,119 |
| Payable after 3 months, but within 1 year | - | 788,100 | - | 215,375 |
| | 6,650,977 | 9,333,589 | 5,516,617 | 8,261,878 |

## 34. CUSTOMER DEPOSIT

| | GROUP 2013 | GROUP 2012 | BANK 2013 | BANK 2012 |
|---|---|---|---|---|
| (a) From government and parastatals: | | | | |
| Payable within 1 month | 46,582,790 | 41,020,836 | 46,509,989 | 40,460,706 |
| Payable after 1 month, but within 3 months | 9,854,969 | 8,402,550 | 9,434,410 | 8,402,550 |
| Payable after 3 months, but within 1 year | 1,614,652 | 14,538,852 | 1,614,652 | 14,538,852 |
| Payable after 1 year, but within 5 years | 781,154 | 2,707,045 | 781,154 | 2,707,045 |
| | 58,833,565 | 66,669,283 | 58,340,205 | 66,109,153 |
| (b) From private sector and individuals: | | | | |
| Payable within 1 month | 196,496,431 | 169,315,144 | 142,321,639 | 115,298,570 |
| Payable after 1 month, but within 3 months | 26,161,177 | 11,344,775 | 18,725,969 | 7,180,635 |
| Payable after 3 months, but within 1 year | 16,509,532 | 25,165,831 | 10,171,804 | 19,566,137 |
| Payable after 1 year, but within 5 years | 7,658,484 | 15,542,334 | 7,653,165 | 15,338,783 |
| | 246,825,624 | 221,368,084 | 178,872,577 | 157,384,125 |

## 34. CUSTOMER DEPOSIT (Continued)

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Total other customer deposits | 305,659,189 | 288,037,367 | 237,212,782 | 223,493,278 |
| Maturing as follows: | | | | |
| Payable within 1 month | 243,079,221 | 210,335,980 | 188,831,628 | 155,759,276 |
| Payable after 1 month but within 3 months | 36,016,146 | 19,747,325 | 28,160,379 | 15,583,185 |
| Payable after 3 months but within 1 year | 18,124,184 | 39,704,683 | 11,786,456 | 34,104,989 |
| Payable after 1 year but within 5 years | 8,439,638 | 18,249,379 | 8,434,319 | 18,045,828 |
| | 305,659,189 | 288,037,367 | 237,212,782 | 223,493,278 |

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2013 was 7.4% (31 December 2012 - 8.3%).

## 35. BILLS PAYABLE

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Bills payable | 1,533,857 | 888,337 | 1,288,642 | 842,277 |

Bills payable consist of cheques issued by the bank to customers and suppliers that were not presented for payment at the end of the year.

## 36. OTHER LIABILITIES

| | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| Accruals | 3,167,226 | 2,500,723 | 2,163,102 | 1,716,509 |
| Other payables | 2,586,339 | 2,227,312 | 1,700,562 | 542,608 |
| | 5,753,565 | 4,728,035 | 3,863,664 | 2,259,117 |

## 37. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

### a) Balances due from group companies

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| KCB Foundation | - | 793 |
| KCB Bank Tanzania Limited | 543,861 | 776,217 |
| KCB Bank Burundi Limited | - | 141,003 |
| KCB Bank Assurance Limited | 10,740 | 15,619 |
| KCB Bank Rwanda Limited | 127,948 | - |
| | 682,549 | 933,632 |

### 37. RELATED PARTY TRANSACTIONS (Continued)

b) Balances due to group companies

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| KCB Bank Burundi Limited | 77,582 | - |
| Savings and Loan Kenya Limited | 499,900 | 499,900 |
| Kencom House Limited | 449,861 | 473,790 |
| Kenya Commercial Finance Company Limited | 115,145 | 115,207 |
| KCB Bank Uganda Limited | 290,465 | 223,118 |
| KCB Bank Rwanda Limited | - | 78,832 |
| KCB Bank South Sudan Limited | 5,216,524 | 5,228,033 |
| | 6,649,477 | 6,618,880 |
| Net balances due to group companies | 5,966,928 | 5,685,248 |

Balances due from and due to group companies are non -interest bearing, are current and are generally on 30-90 day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

c) Shareholders, directors and key management personnel

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| i) Loans | | | | |
| Government of Kenya | 344,814 | 379,259 | 344,814 | 379,259 |
| Directors | 45,590 | 159,981 | 8,266 | 24,737 |
| Senior management | 257,586 | 214,858 | 257,586 | 170,846 |
| | 647,990 | 754,098 | 610,666 | 574,842 |
| Movement in loans to directors and senior management | | | | |
| At 1 January | 374,839 | 4,595,942 | 195,583 | 4,456,879 |
| Loans issued during the year | 13,525 | 258,662 | 94,174 | 96,576 |
| Loans repayments during the year | (85,188) | (1,422,702) | (23,905) | (1,300,809) |
| Reclassification | - | (3,057,063) | - | (3,057,063) |
| At 31 December | 303,176 | 374,839 | 265,852 | 195,583 |
| Interest income earned | 53,359 | 463,437 | 10,905 | 427,182 |

### 37. RELATED PARTY TRANSACTIONS (Continued)

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| ii) | Deposits | | | | |
| | Government of Kenya | 40,531,436 | 38,916,979 | 40,531,436 | 38,916,979 |
| | Directors | 21,238 | 246,902 | 9,980 | 224,139 |
| | Senior management | 109,179 | 208,069 | 104,536 | 205,040 |
| | At 31 December | 40,661,853 | 39,371,950 | 40,645,952 | 39,346,158 |
| | Movement in deposits directors by and senior management | | | | |
| | At 1 January | 454,971 | 2,056,624 | 429,179 | 2,042,330 |
| | Deposits received during the year | 650,123 | 612,781 | 387,109 | 436,037 |
| | Deposits withdrawn during the year | (974,591) | (431,330) | (701,772) | (266,084) |
| | Reclassification | - | (1,783,104) | - | (1,783,104) |
| | At 31 December | 130,503 | 454,971 | 114,516 | 429,179 |
| | Interest expense | 723 | 11,083 | 149 | 10,325 |

The reclassification relates to loans and deposits due from/to directors who retired from the Board in 2012.

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| iii) | Senior management personnel compensation (Included under personnel costs - Note 14) | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| | Short term employee benefits | 464,872 | 498,095 | 329,499 | 216,243 |
| | Share based payments | - | 8,310 | - | 8,310 |
| | Termination benefits | 107,000 | - | 107,000 | - |
| | Post-employment benefits | 23,025 | 21,473 | 22,078 | 5,776 |
| | | 594,897 | 527,878 | 458,577 | 230,329 |

## 38. LONG TERM DEBT

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Maturing within one year | 1,735,710 | 1,605,822 | 1,571,818 | 1,566,363 |
| Maturing after one year, but within five years | 5,983,937 | 6,534,307 | 5,501,364 | 6,265,454 |
| Maturing after five years | - | 783,183 | - | 783,183 |
| | 7,719,647 | 8,923,312 | 7,073,182 | 8,615,000 |

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Reconciliation of the movement in the long term debt | | |
| Group | | |
| At 1 January | 8,923,312 | 8,525,000 |
| Funds received | 338,153 | 308,312 |
| Payments on principal and interest | (1,551,948) | - |
| Translation differences | 10,130 | 90,000 |
| At 31 December | 7,719,647 | 8,923,312 |
| Bank | | |
| At 1 January | 8,615,000 | 8,525,000 |
| Payments on principal and interest | (1,551,948) | - |
| Translation differences | 10,130 | 90,000 |
| At 31 December | 7,073,182 | 8,615,000 |

The long term debt includes

(a) A 7 year loan obtained from International Finance Corporation in 2011 (IFC) of USD 100 million at an effective interest rate of 2.25 %.

(b) A loan of KShs. 308,312,000 obtained by KCB Bank Rwanda Limited from National Bank of Rwanda as follows.

| Date | Term | Maturity date | Interest rate | Amount RWF '000 | Amount KShs.'000 |
|---|---|---|---|---|---|
| 8 Dec 2009 | 5 years | 2 Dec 2014 | 9% | 1,280,000 | 163,892 |
| 4 March 2011 | 5 years | 26 Feb 2016 | 9% | 295,549 | 37,842 |
| 10 May 2011 | 5 years | 2 May 2016 | 8.5% | 733,708 | 93,945 |
| | | | | 2,309,257 | 295,679 |

(c) A reclassification of KShs.350,785,000 from customer deposits in 2013. This relates to a loan obtained by KCB Bank Rwanda Limited in 2012 from IFC of USD.

## 39. SHARE CAPITAL

### (a) Share Capital

| | GROUP AND BANK 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Authorised:- | | |
| 3,500,000,000 (2012: 3,500,000,000) ordinary shares of KShs.1 each | 3,500,000 | 3,500,000 |
| Issued and fully paid:- | | |
| 2,984,227,692 (2012: 2,970,340,356) ordinary shares of KShs.1 each | 2,984,228 | 2,970,340 |
| The movement in share capital during the year was as follows: | | |
| At January | 2,970,340 | 2,968,746 |
| Employee share option exercised | 13,888 | 1,594 |
| At 31 December | 2,984,228 | 2,970,340 |

### (b) Employee Share Option Plan

The bank offers shares to the employees under an Employee Share Option (ESOP) at a price lower than the market. The following is a movement of options outstanding at the end of the year.

| | Weighted average exercise price 2013 | Number of options 2013 | Weighted average exercise price 2012 | Number of options 2012 |
|---|---|---|---|---|
| Outstanding at 1 January | 21.46 | 38,567,480 | 20.88 | 64,983,058 |
| Granted during the period | - | - | - | - |
| Forfeited during the period | 20.04 | (12,527,578) | 20.04 | (24,821,378) |
| Exercised during the period | 20.04 | (13,888,000) | 20.04 | (1,594,200) |
| Expired during the year | | | - | - |
| Outstanding at 31st December | 21.46 | 12,151,902 | 21.46 | 38,567,480 |
| Exercisable as at 31 December | | - | | - |

The value of services received in return for the share options granted was based on the fair value of the share options, measured using the Black-Scholes model, with the following inputs/assumptions.

## 39. SHARE CAPITAL (Continued)

| | |
|---|---|
| Fair value at the measurement date | KShs. 4.68 |
| Market share price | KShs. 21.6 |
| Expected volatility based on historic market share price standard deviation | 3.5% |
| Weighted average option life | 13 months |
| Expected dividends | 5.8% |
| Interest free interest rates based on Government securities | 13.1% |

Options exercised during the period were measured at the share market price as of the date of exercise.

The fair value of the option is recognized as employee expenses in the income statement of the Group. To determine the expense for each particular period for options that are outstanding, the Group assumes that the employee will uniformly earn the option rights over the vesting period. The table below details the employee expenses for the share-based transactions recognized in the income statement during the year.

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Share options granted in 2009 | 87,502 | 87,502 |
| Share options granted in 2010 | 7,717 | 7,717 |
| Share options granted in 2011 | 140,417 | 140,417 |
| Share options granted in 2012 | 9,811 | - |
| Total expense recognized as employee expenses | 245,447 | 235,636 |

c) Shareholding

The top ten largest shareholders of the Bank as at 31 December 2013 were:

| Shareholder | No. of Shares | % |
|---|---|---|
| Permanent Secretary to theTreasury of Kenya | 523,600,000 | 17.55 |
| National Social Security Fund | 225,596,743 | 7.56 |
| Standard Chartered Nominees Non Resident A/C 9318 | 65,868,374 | 2.21 |
| KanaksinhKarsandas & Sandip KanaksinhBabla | 59,261,000 | 1.99 |
| Standard Chartered Nominees A/C 9688 | 53,490,723 | 1.79 |
| Standard Chartered Kenya Nominees Ltd A/C KE18965 | 44,132,400 | 1.48 |
| CFC Stanbic Nominees Ltd A/C R48701 | 43,775,626 | 1.47 |
| Standard Chartered Nominees A/C 9687 | 40,570,686 | 1.36 |
| Standard Chartered Nominees Non Resident A/C 9867 | 39,373,400 | 1.32 |
| Standard Chartered Nominees Account KE14353 | 28,802,043 | 0.97 |
| | 1,124,470,995 | 37.68 |

## 39. SHARE CAPITAL (Continued)

| Share range | No. of shareholders | Shares held | % |
|---|---|---|---|
| 1 to 5,000 | 126,682 | 211,905,362 | 7.1 |
| 5,001 to 50,000 | 27,896 | 288,421,327 | 9.7 |
| 50,001 to 100,000 | 795 | 55,275,360 | 1.9 |
| 100,001 to 1,000,000 | 806 | 235,388,061 | 7.9 |
| 1,000,001 to 10,000,000 | 207 | 719,236,903 | 24.1 |
| 10,000,001 & above | 30 | 1,474,000,679 | 49.3 |
| | 156,416 | 2,984,227,692 | 100 |

## 40. RESERVES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Retained earnings | 36,598,768 | 28,875,312 | 34,927,471 | 28,319,248 |
| Share premium | 19,330,200 | 18,921,568 | 19,330,200 | 18,921,568 |
| Available-for-sale reserve | (163,396) | (84,815) | (163,396) | (84,815) |
| Statutory credit risk reserve | 4,371,255 | 3,151,528 | 3,220,136 | 2,799,884 |
| Re-measurement of defined pension fund | 1,464,400 | 955,500 | 1,464,400 | 955,500 |
| Translation reserve | (1,230,488) | (494,374) | - | - |
| | 60,370,739 | 51,324,719 | 58,778,811 | 50,911,385 |

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion by the Group.

The available-for-sale reserve arises from marking to market of investment securities classified under available-for-sale category. The reserves are recognized in the income statement once the underlying asset has been derecognized

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution

The translation reserve arises from translation of the net investment in foreign subsidiaries to Kenya Shillings.

## 41. DIVIDEND PER SHARE

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting. At the Annual General Meeting to be held on 9th May 2014, a final dividend in respect of the year ended 31 December 2013 of KSh. 5,968,455,000 (2012 – KSh. 5,643,646,676 ) for every ordinary share of KShs.1 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

| | GROUP AND BANK | |
|---|---|---|
| | **2013 KShs.'000** | **2012 KShs.'000** |
| Dividends per share (KShs.) | 2.00 | 1.90 |
| | **2013** | **2012** |
| **Group** | **KShs** | **KShs** |
| At 1 January | 151,466 | (5,492,180) |
| Dividend declared | 5,968,455 | 5,643,646 |
| Dividend paid | (5,643,646) | - |
| At 31 December | 476,275 | 151,466 |
| **Company** | | |
| At 1 January | 151,466 | (5,492,180) |
| Dividend declared | 5,968,455 | 5,643,646 |
| Dividend paid | (5,643,646) | - |
| At 31 December | 476,275 | 151,466 |

**For the year ended 31 December 2013**

## 42. NOTES TO THE STATEMENT OF CASH FLOWS

| (a) Cash flows from operating activities | GROUP 2013 KShs.'000 | GROUP 2012 KShs.'000 | BANK 2013 KShs.'000 | BANK 2012 KShs.'000 |
|---|---|---|---|---|
| This has been derived as follows:- | | | | |
| Profit before tax | 20,123,759 | 17,208,143 | 17,746,191 | 15,755,891 |
| Adjustments for: | | | | |
| Depreciation of property and equipment | 2,098,691 | 1,755,273 | 1,270,770 | 1,249,952 |
| Amortization of prepaid operating lease rentals | 2,534 | 860 | 2,497 | 825 |
| Amortization of intangible assets | 578,095 | 538,926 | 560,605 | 526,680 |
| Retirement benefit expense | (61,000) | (54,000) | (61,000) | (54,000) |
| Share based payment | 245,447 | 235,636 | 245,447 | 235,636 |
| Profit on disposal of leasehold property | 2,765 | - | - | - |
| Profit on disposal of property and equipment | (29,847) | (50,685) | (29,847) | (50,138) |
| Operating profit before movements in operating assets and liabilities | 22,960,444 | 19,634,153 | 19,734,663 | 17,664,846 |
| Cash reserve ratio | 2,522,120 | (311,339) | 4,306,108 | 133,348 |
| Available for sale investments | (23,382,056) | (4,814,045) | (22,066,974) | (4,814,045) |
| Held to maturity investments | 12,462,180 | (21,466,390) | 10,690,541 | (4,398,116) |
| Effects of foreign exchange rates on long term debt | 5,800 | 90,000 | 10,130 | 90,000 |
| Re-classification | | 308,312 | - | - |
| Loans and advances | (16,057,555) | (12,939,307) | (11,347,405) | (7,178,677) |
| Balances due from group companies | - | - | 281,680 | 165,641 |
| Other assets | (3,713,980) | (316,712) | (2,974,092) | (652,655) |
| Other customer deposits | 17,621,822 | 28,728,518 | 13,719,504 | 13,319,764 |
| Other liabilities | 1,671,052 | 1,693,610 | 2,050,914 | 1,861,191 |
| Cash flow from operating activities | 14,089,827 | 10,606,800 | 14,405,069 | 16,191,297 |
| Income taxes paid | (8,883,994) | (4,597,464) | (8,433,099) | (4,271,045) |
| Net cash flows from operating activities | 5,205,833 | 6,009,336 | 5,971,970 | 11,920,252 |
| **(b) Analysis of cash and cash Equivalents** | | | | |
| Balances with Central Banks | 7,157,209 | 7,931,953 | 1,057,490 | - |
| Cash on hand | 15,759,310 | 14,941,781 | 8,649,572 | 7,486,203 |
| Held to maturity investments | 2,480,741 | 12,935,943 | 773,257 | 12,673,965 |
| Due from banks | 10,402,010 | 10,421,565 | 5,222,915 | 4,491,511 |
| Due to banks | (6,650,977) | (9,333,589) | (5,516,617) | (8,261,878) |
| Held for trading | 6,241,984 | 2,923,263 | 6,241,984 | 2,923,263 |
| | 35,390,277 | 39,820,916 | 16,428,601 | 19,313,064 |

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Cash and cash equivalents excludes, KShs. 11,024 million (2012 KShs. 13,546 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

## 42. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held to maturity investments, whose reconciliation is as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Balance as per statement of cash flows | 2,480,741 | 12,935,943 | 773,257 | 12,673,965 |
| Balances with more than three months maturity from the acquisition date | 45,053,041 | 57,515,221 | 27,730,937 | 38,421,478 |
| Balance as per statement of financial position | 47,533,782 | 70,451,164 | 28,504,194 | 51,095,443 |

## 43. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Capital commitments contracted for at year end | 127,104 | 276,963 | 59,161 | 113,244 |
| Loans committed but not disbursed at year end | 41,868,926 | 46,644,275 | 41,617,845 | 45,089,131 |
| Foreign currency commitments | 415,369 | 102,365 | 377,839 | 55,092 |

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

## 44. CONTINGENT LIABILITIES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | 2013 KShs.'000 | 2012 KShs.'000 | 2013 KShs.'000 | 2012 KShs.'000 |
| Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end | 121,793,806 | 102,024,865 | 119,086,030 | 100,674,117 |

Letters of credit, guarantees and acceptances commit the Bank and its subsidiary companies to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

### 44. CONTINGENT LIABILITIES (Continued)

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. Adversely graded guarantees and letters of credit amount to KShs. 496,103,068 (2012: KShs. 31,417).

At year end, the Group had several unresolved legal and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

### 45. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

The Bank operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Bank responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and off shore investments. Old Mutual Asset Managers and PineBridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.

- 36.3% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.

- Following the closing of the Fund as at 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

## 45. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The information below summarizes the scheme assets and liabilities:

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Reconciliation of benefit obligations | | |
| At 1 January | 6,355,000 | 6,964,000 |
| Current service cost (net of employer contributions) | 134,000 | 117,000 |
| Interest cost | 727,000 | 906,000 |
| Actuarial gains/(losses) due to experience | 636,000 | (1,300,000) |
| Actuarial gain/(loss)-due to changes in assumptions | (657,000) | 297,000 |
| Benefits paid | (723,000) | (629,000) |
| Past service cost | - | - |
| At 31 December | 6,472,000 | 6,355,000 |
| Reconciliation of benefit obligation | | |
| Open market value of assets | 7,404,000 | 6,872,000 |
| Interest income on plan assets | 849,000 | 891,000 |
| Employer contributions | 73,000 | 78,000 |
| Actuarial gains | 706,000 | 192,000 |
| Benefits paid | (723,000) | (629,000) |
| At 31 December | 8,309,000 | 7,404,000 |
| Present value of fund obligations | 6,472,000 | 6,355,000 |
| Fair value of plan assets | (8,309,000) | (7,404,000) |
| Net defined asset | (1,837,000) | (1,049,000) |

## 45. RETIREMENT BENEFIT OBLIGATIONS (Continued)

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| **Service Cost** | | |
| Current service cost (employer) | 134,000 | 117,000 |
| Past Service Cost | - | - |
| Losses/(gains) on curtailments and settlements | - | - |
| **Total Service Cost** | 134,000 | 117,000 |
| Interest Cost | | |
| Interest cost on defined benefit obligation | 727,000 | 906,000 |
| Interest income on plan assets | (849,000) | (891,000) |
| Interest on the effect of the asset ceiling | - | - |
| **Net Interest cost on Balance Sheet liability** | (122,000) | 15,000 |
| **Net Interest cost on Balance Sheet liability** | 12,000 | 132,000 |
| **Re-measurement (Other comprehensive income)** | | |
| Change in unrecognized position | - | - |
| Actuarial (gain)/loss – obligation | (21,000) | (1,003,000) |
| Return on plan assets (excluding amount in interest cost) | (706,000) | (188,000) |
| Change in effect of asset ceiling (excluding amount in interest cost) | - | - |
| **Amount recognized in Other comprehensive income** | (727,000) | (1,191,000) |
| Reconciliation | | |
| Net liability at the start of the period | (1,049,000) | 92,000 |
| Net expense recognized in the income statement | 12,000 | 128,000 |
| Employer contributions | (73,000) | (78,000) |
| Amount recognized in other comprehensive income | (727,000) | (1,191,000) |
| **Net asset at the end of the period** | (1,837,000) | (1,049,000) |

## 45. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used are as follows:

| **Actuarial Assumptions** | **31-Dec-13** | **31-Dec-12** |
|---|---|---|
| Discount Rate (% p.a) | 13.5% | 12.00% |
| Future salary increases (% p.a ) | 8.5% | 8.0% |
| Future pension increases (% p.a ) | 0.0% | 0.0% |
| Mortality (pre-retirement) | A1949-1952 | A1949-1952 |
| Mortality (post-retirement) | a(55) ultimate | a(55) ultimate |
| Withdrawals (voluntary) | At rates consistent with similar arrangements. | At rates consistent with similar arrangements. |
| Retirement age | 55 years | 55 years |

### Sensitivity of the results

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

| | **Current discount rate** | **Discount rate +1%** |
|---|---|---|
| Present value of fund obligations | KShs 6,472m | KShs 6,078m |

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in service members.

## 46 OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee

Non-cancellable operating lease rentals are payable as follows:

| | **2013 KShs.'000** | **2012 KShs.'000** |
|---|---|---|
| Within 1 year | 36,826 | 29,046 |
| After 1 year but less than 5 years | 527,825 | 665,416 |
| After 5 years | 357,141 | 484,371 |
| | 921,792 | 1,178,833 |

## 46 OPERATING LEASE COMMITMENTS (Continued)

| | 2013 KShs.'000 | 2012 KShs.'000 |
|---|---|---|
| Operating leases – Group as lessor | | |
| Within 1 year | 510,194 | 11,377 |
| After 1 year but less than 5 years | 179,130 | 56,835 |
| After 5 years | 4,832 | 94,423 |
| | 694,156 | 162,635 |

The Group leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease upon expiry. Lease rentals are increased accordingly to reflect market rentals.

## 47. COMPARATIVE NUMBERS AND RESTATEMENTS

Certain comparative figures for the years 2011 and 2012 have either been restated or adjusted to conform to changes in presentation in the current year. Comparative figures under other liabilities and other assets have been restated due to the re-measurement of the defined benefit liability (asset) under the revised IAS 19 Employee benefits.

**Quantitative impact**

| | 2012 KShs.'000 | 2011 KShs.'000 |
|---|---|---|
| **Statement of financial position** | | |
| Retirement Benefit Asset/(Liability) | | |
| As previously stated – 31 December | (316,000) | (266,000) |
| Restatement | 1,365,000 | 174,000 |
| **As restated – 31 December** | 1,049,000 | (92,000) |
| **Other comprehensive income (OCI)** | | |
| Actuarial gains/losses | 1,191,000 | 174,000 |
| Related tax at 30% | (357,300) | (52,200) |
| | 833,700 | 121,800 |

| | KShs.'000 |
|---|---|
| **Cumulative impact in OCI** | |
| Actuarial gains/losses net of tax - 2011 | 121,800 |
| Actuarial gains/losses net of tax - 2012 | 833,700 |
| | 955,500 |

# Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 43RD ANNUAL GENERAL MEETING of the Shareholders of KENYA COMMERCIAL BANK LIMITED will be held at the Main Auditorium, The Bomas of Kenya, Langata Road, Nairobi, on Friday, 9th May, 2014 at 11.00 a.m. when the following business will be transacted, namely:-

**AGENDA**

**1. Constitution of the Meeting**

To read the notice convening the Meeting and determine if a quorum is present.

**2. Ordinary Business**

**a) Report and Financial Statements for the Year ended 31st December, 2013**

To receive, consider and, if thought fit, adopt the Consolidated Financial Statements for the year ended 31st December, 2013 together with the reports of the Group Chairman, the Chief Executive Officer and the Auditors' thereon.

**b) Dividend**

To declare a first and final dividend of KShs. 2 per share and approve the closure of the Register of Members on 13th May, 2014.

**c) Election of Directors**

i. In accordance with Article 94 of the Company's Articles of Association, the Cabinet Secretary - National Treasury retires by rotation from office as Director of the Company, and being eligible, offers himself for re-election.

ii. In accordance with the Bank's Board Charter, Prof. Peter Kiko Kimuyu and Eng. Musa Jeremiah Ndeto retire from the Board having served the Board for the maximum eight years.

**d) Remuneration of Directors**

To authorize the Board to fix the remuneration of the Directors.

**e) Appointment of Auditors**

To re-appoint Messrs. KPMG Kenya, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

**f) Remuneration of the Auditors**

To authorize Directors to fix the remuneration of the Auditors.

**3. Special Business**

To consider and, if approved, pass the following Special Resolution:-

**Formation of a Non-Operating Holding Company**

"That, subject to obtaining all the required approvals, a Non-Operating Holding Company be formed in accordance with the recommendations of the Board and that the Board and the Management be and are authorised to take all such steps as may be required and to execute all such documents for the formation and implementation of the Non-Operating Holding Company."

**4. Any Other Business**

To transact any other business which may be properly transacted at an Annual General Meeting.

Dated at Nairobi this 26th day of February, 2014.

**BY ORDER OF THE BOARD**

**Joseph Kania**
Company Secretary

**Note:**

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is attached to the end of this report, must be completed and signed by the member and must be lodged at the offices of The Registrar, Kenya Commercial Bank Limited, 2nd Floor, Kencom House, Moi Avenue, P.O. Box 48400, GPO 00100, Nairobi, to arrive not later than 11:00 a.m. on 7th May, 2014 i.e. 48 hours before the meeting or any adjournment thereof.

   If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate.

2. A copy of this Notice, Proxy Form and the entire Annual Report & Accounts may be viewed on the Company's website at www.kcbbankgroup.com.

3. Registration of members and proxies for the Annual General Meeting will commence at 8:00 a.m. on 9th May 2014. Members and proxies should carry their national ID cards and a copy of the relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process.

4. Transport will be provided to Shareholders from Kenya Commercial Bank Limited, Kencom House to the Bomas of Kenya, Main Auditorium from 6.30 a.m. to 10.00 a.m. and back to Kencom House at the close of the meeting.

# Arifa ya Mkutano Mkuu wa 43 wa mwaka

Ilani imetolewa kwamba MKUTANO MKUU WA MWAKA WA 43 wa Wanahisa wa BENKI YA KENYA COMMERCIAL utafanywa katika Ukumbi Mkuu wa BOMAS of KENYA, barabara ya Langata, Nairobi, Ijumaa, tarehe 9 Mei, 2014 saa tano za asubuhi, ambapo yafuatayo yatajadiliwa:-

**Ajenda**

**1. Jumuiko la Mkutano**

Kusoma taarifa ya kuitisha kuandaliwa kwa mkutano na kuamua iwapo kuna idadi ya kutosha ya wanachama.

**2. Shughuli za Kawaida**

**a) Ripoti na taarifa za uhasibu kwa mwaka uliomalizika tarehe 31 Disemba, 2013.**

Kupokea na kutafakari ripoti, na inapoonelewa inafaa, kuidhinisha Taarifa za Kifedha za Jumla kwa mwaka uliomalizika tarehe 31 Disemba, 2013 pamoja na ripoti ya Mwenyekiti wa Kampuni, Mkurugenzi Mkuu na ile ya Wahasibu.

**b) Mgao wa faida**

Kutangaza mgao wa faida wa kwanza na wa mwisho wa KShs. 2 kwa kila hisa na kuidhinisha kufungwa kwa Sajili ya Wanachama tarehe 13 Mei, 2014.

**c) Uchaguzi wa Wakurugenzi**

i) Kwa mujibu wa kifungu 94 cha sheria na masharti ya Kampuni, Katibu baraza la mawaziri – Hazina Kuu ya Taifa, anastaafu kwa zamu kama Mkurugenzi wa Kampuni na kwa kuwa anahitimu, anajitolea kuchaguliwa tena.

ii) Kwa mujibu wa Muongozo wa Halmashauri, Prof. Peter Kiko Kimuyu na Mhandisi Musa Jeremiah Ndeto wanastaafu kutoka kwa Halmashauri ya Wakurugenzi baada ya kukamilisha muda wao wa kuhudumu kama Wakurugenzi.

**d) Marupurupu ya Wakurugenzi**

Kuruhusu Halmashauri ya Wakurugenzi kuamua marupurupu ya Wakurugenzi.

**e) Uteuzi wa Wahasibu**

Kuteua tena Kampuni ya KPMG Kenya, Wahasibu wa Umma Walioidhinishwa, kama Wahasibu wa Kampuni, hadi kukamilishwa kwa Mkutano Mkuu wa Mwaka ujao.

# Arifa ya Mkutano Mkuu wa 43 wa Mwaka *(Yaendelea)*

**f) Marupurupu ya Wahasibu**

Kuidhinisha Wakurugenzi kuamua marupurupu ya Wahasibu.

## 3. Shughuli Maalumu

Kupendekeza, na inapoidhinishwa, kupitisha Azimio Maalum lifuatalo:-

**Kuundwa kwa Kampuni Simamizi**

Kwamba, kutegemea kupatikana kwa maidhinisho yanayohitajika, kuundwe Kampuni Shikilizi kulingana na mapendekezo ya Halmashauri na kwamba Halmashauri na Usimamizi wawe na wameidhinishwa kuchukua hatua zote kama hizi kama inavyohitajika na kutekeleza nyaraka zote hizi kwa ajili ya kuundwa na kutekelezwa kwa Kampuni Shikilizi.

## 4. Shughuli yoyote nyingine

Kutekeleza shughuli yoyote ambayo inaweza kutekelezwa ifaavyo katika Mkutano Mkuu wa Mwaka.

Nairobi, tarehe 26 Februari, 2014.

**Kwa Amri ya Halmashauri ya Wakurugenzi**

**Joseph Kania**
Katibu

**Tanbihi:**

1. Mwanachama mwenye haki ya kuhudhuria na kupiga kura kwenye mkutano na ambaye hawezi kuhudhuria ana haki ya kumteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Mwakilishi huyo sio lazima awe mwanachama wa Kampuni. Ili kuhalalisha hilo, fomu ya uwakilishi, ambayo imeambatanishwa mwishoni mwa ripoti hii, ni sharti ijazwe na kuwekwa saini na mwanachama na lazima iwasilishwe katika afisi za Msajili, Benki ya Kenya Commercial, gorofa ya pili, Kencom House, Moi Avenue, S.L.P. 48400, GPO 00100, Nairobi, iwasili kabla ya saa tano asubuhi tarehe 7 Mei, 2014; yaani masaa 48 kabla ya mkutano au ahirisho lolote lile.

Iwapo mteuzi ni shirika, hati inayoteua mwakilishi itatolewa chini ya muhuri rasmi au iwasilishwe kwa ofisa aliyeruhusiwa na wakili wa shirika hilo.

2. Nakala ya arifa, Fomu ya Uwakilishi na Ripoti kamili ya mwaka na uhasibu zinaweza kusomwa katika tovuti ya Kampuni ambayo ni: www.kcbbankgroup.com.

3. Usajili wa wanachama na wawakilishi kwa Mkutano Mkuu wa Mwaka utaanza saa mbili asubuhi tarehe 9 Mei, 2014. Wanachama na wawakilishi wanapaswa kuwa na vitambulisho vyao vya kitaifa na nakala inayohitajika ya akaunti ya CDSC ili kurahisisha usajili.

4. Usafiri utatolewa kwa wanahisa kutoka Benki ya Kenya Commercial, Kencom House hadi katika Ukumbi Mkuu wa Bomas of Kenya, kuanzia saa kumi na mbili unusu asubuhi hadi saa nne za asubuhi na wakati wa kurudi kutoka kwa mkutano.

# NOTES

THE SECRETARY
KENYA COMMERCIAL BANK LTD
8TH FLOOR, KENCOM HOUSE, MOI AVENUE
P.O. BOX 48400-00100 NAIROBI KENYA

I/WE ____________________________________________

ID/Passport No.____________________________________________

Shares A/C No/CDS A/C No ____________________________________________

of P.O. Box____________________________________________

Being a Member/Members of the above named company hereby appoint ______________________

ID/Passport No ____________________________________________

of P.O. Box____________________________________________

or failing him the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 43th Annual General Meeting of the Company to be held on 9th May 2014 at 11:00 a.m. or at any adjournment thereof.

Signed ______________________ this day of ____________________2014

Signature (s)

Note:

1. If a member is unable to attend personally this Form of Proxy should be completed and returned to reach the Company's Registered Office not later than 11:00 a.m. on 7th May 2014 i.e. 48 hours before the time for holding the meeting.
2. A person appointed to act as a proxy need not to be a member of the Company.
3. In case of a member being a corporate body, the Proxy Form must be under its Common Seal or under the hand of the officer or attorney duly authorized in writing.

KATIBU
BENKI YA KENYA COMMERCIAL BANK LTD
GOROFA YA NANE, JUMBA LA KENCOM, MOI AVENUE
S.L.P. BOX 48400-00100 NAIROBI KENYA

Mimi/Sisi ______________________________________________

Wa kitambulisho/Pasipoti Nambari ______________________________________________

Hisa A/C No/CDS A/C No ______________________________________________

wa S.L.P. ______________________________________________

Nikiwa mwanachama/Wanachama wa kampuni iliyotajwa hapo juu namteua/tunamteua ____________________

Wa kitambulisho/Pasipoti Nambari ______________________________________________

wa S.L.P. ______________________________________________

na akikosa yeye, namteua/tunamteua Mwenyekiti wa mkutano kama mwakilishi wangu/wetu, kupiga kura kwa niaba yetu kwenye Mkutano wa 43 wa Kampuni utakaofanyika tarehe 9, Mei 2014 saa tano za asubuhi ama siku ile endapo mkutano huo utaahirishwa.

Imetiwa saini ____________________ siku ya ____________________ 2014

Saini

Kumbuka
Iwapo Mwanachama ni Shirika, Form ya Uwakilishi ni lazima iwe muhuri wake au seal iwe na afisa au wakili aliyeidhinishwa kwa maandishi. Si lazima mwakilishi awe Mwanachama wa Kampuni.

Fomu ya uwakilishi ni lazima ifike kwa Msajili tarehe 7 Mei 2014 saa tano za asubuhi, yaani masaa 48 kabla ya mkutano.

# THANK YOU FOR PUTTING US ON TOP

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Bank of the Year 2013
AFRICA

The Banker
Bank of the Year 2013
KENYA

KCB Group was recently voted by The **Banker Awards** as the
**Bank of the Year 2013 - Africa** and
**Bank of the Year 2013 - Kenya.**

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